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The Small Business Adviser

Published by U.S. Chamber of Commerce

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Loans To Children**

**How Doing What's  
Right Pays Off**

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As federal revenues and spending converge, debate is getting under way on how to use the projected budget surpluses. The business community calls for ensuring the continuation of economic progress and the preservation of fiscal discipline. Cover Story, Page 12.



PHOTO: ©PAUL F. GERO

The quality test at Frank L. Havelock's equipment-calibration firm was securing ISO 9000 certification. Managing, Page 66.

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# Editor's Note

## A Fantastic Opportunity

I've worked in Washington for more than 15 years and never thought I'd see the Capitol Hill debate that is about to unfold. I thought the struggle to get Congress to balance the federal budget would be a lifelong endeavor for responsible-minded citizens well into the next century. What a different and exciting outlook this nation faces now that a balanced budget is at hand!

Congress and the president have a marvelous opportunity as the result of a projected federal surplus to begin to address problems that I earlier had come to believe the next generation was doomed to inherit. They include a tax burden that as a percentage of the gross domestic product is at its highest level since World War II, a \$5.5 trillion national debt, Medicare and Social Security systems headed for insolvency, and a crumbling transportation infrastructure.

To help readers understand the context for the forthcoming debate, we prepared our cover story, which begins on Page 12. It outlines the most likely possibilities for using the surplus and different points of view on each.

Every business person should take an interest in this debate because the outcome will surely help shape the nation's future. Our cover story can be a helpful starting point for understanding the decisions that lie ahead.



PHOTO: STOM SOBOLIN—BLACK STAR

With the economy still expanding and many consumers having more money than time to spend, entrepreneurs—including golf-course owner David Wolkoff, in the photo above—are expanding their hours of operation to boost sales and increase efficiency. Their strategy is working. See "A Wake-Up Call For Companies," starting on Page 63. And be sure to see the many other articles in this issue that include tips for improving your business.

*Mary Y. McElveen*  
 Mary Y. McElveen  
 Editor

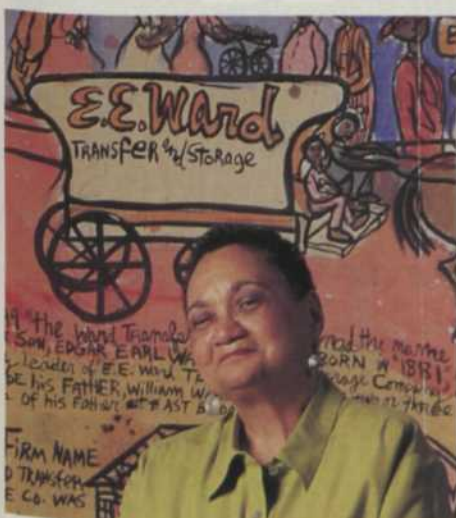


PHOTO: GLAWRY HAMIL—BLACK STAR

Customer service that's ethical to the core is the reputation of Dolores White's moving company. *Managing*, Page 32.

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# Nation's Business

# Letters



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## A Call To Redirect Awards For Punitive Damages



As you point out in "Lawsuits Gone Wild" [Cover Story, February], awards for punitive damages are often disgraceful.

There is a way to stop many lawsuits, however, that is so obvious it is overlooked: All awards for punitive damages should go to the state, not to the suing party.

The intent of tort law is to make the suing party "whole." This amounts to compensating him or her for out-of-pocket expenses or the dollar equivalent of other losses. The intent is not to make suing a profit-making venture, but that is what it has become.

Awards for punitive damages are supposed to be fines to discourage others from repeating an offense. In theory, there is really no difference between these fines and fines for traffic violations. But in fact, punitive damages have come to represent the profit a suing party makes for winning a suit.

The solution is to change the laws so that punitive damages are treated as fines that are paid to the state. This probably is not possible as long as most lawmakers are lawyers. But if there were a grass-roots movement to change our laws, it might snowball. I would sure like to see it tried.

Ward Rosen, Owner  
Armadillo Press  
Houston

## Education Is The Key



"Lawsuits Gone Wild" hit the nail on the head in emphasizing the need to reform the tort laws in this country.

What is required is education so that people will realize how they are being fooled and robbed. The United States is a country with too many lawyers, but it is also a country with too many laws that give those lawyers a license to steal.

Business people need to support groups such as the American Tort Reform Association, based in Washington, D.C. These groups have the organizational

skills to assist in this effort and can provide information regarding activity on both the state and national levels.

James P. Economos

Doctor of Dental Surgery

James P. Economos & Associates  
Bartlett, Ill.

## The Cold Facts?



"The High Costs Of Being Sued," which accompanied your February cover story, calls into question the integrity of your magazine.

The first case cited, for instance, is the McDonald's "hot coffee" case. Many articles have been written giving the underlying

facts of the case, which include: the hundreds of complaints regarding the temperature of the coffee; the fact that McDonald's kept its coffee substantially hotter than did other businesses to save money (keeping it hotter makes it taste fresher, which means less waste); and the fact that the injured woman had to have plastic surgery because of the severity of her burns.

You chose to take the sensational approach to journalism.

By the way, I am a

lawyer who represents many businesses.  
Randy Clinkscales  
Clinkscales & Brubaker, P.A.  
Hays, Kan.

[Editor's Note: The theme of "The High Costs Of Being Sued" was the size of awards for punitive damages in some recent high-profile lawsuits, not the merits of the cases included.]

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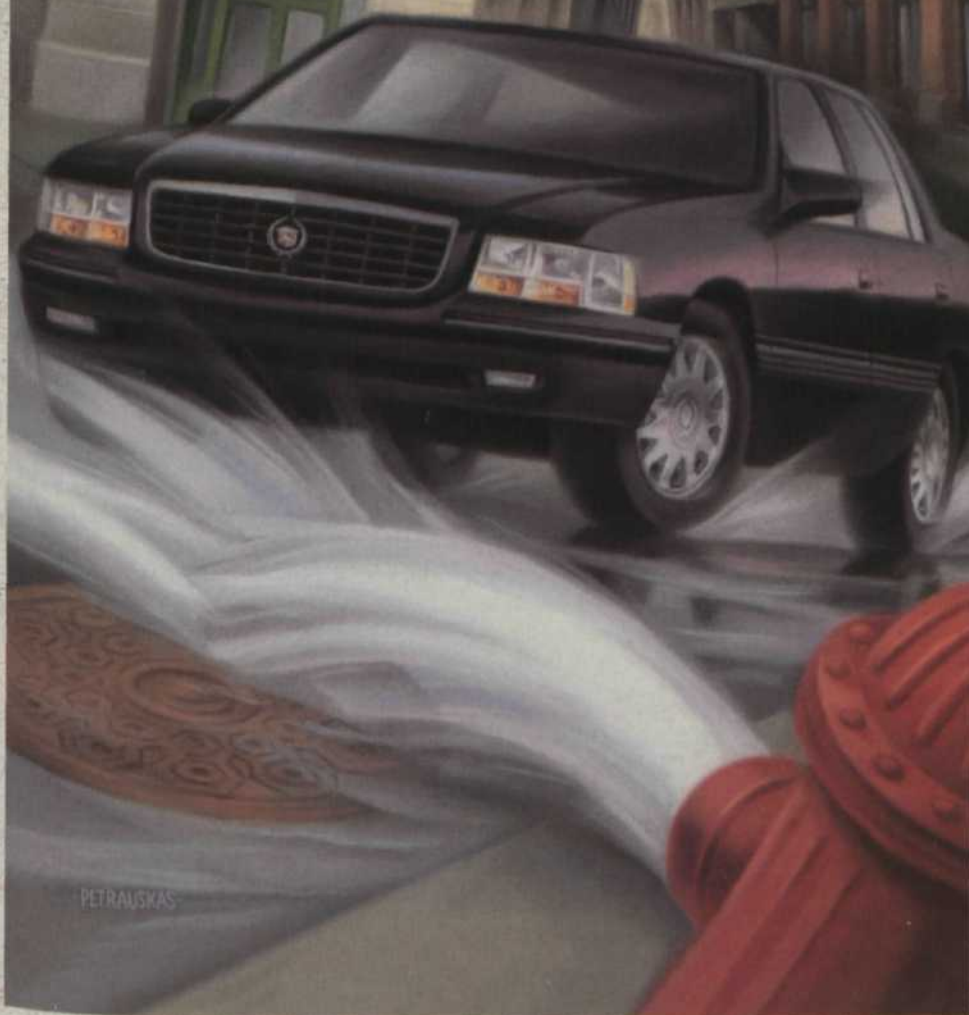
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# Dateline: Washington

*Business news in brief from the nation's capital.*

## LEGISLATION

### Bills Seek To Slow Bankruptcy Filings

Bankruptcy filings in the United States in 1997 were projected to top 1.4 million and to cost creditors—most of them businesses—more than \$40 billion. Because the number of filings has continued to rise in recent years, legislation has been introduced in both the House and Senate to tighten the bankruptcy law.

Reps. Bill McCollum, R-Fla., and George W. Gekas, R-Pa., are urging action during this session of Congress on their bankruptcy-reform measures. A similar bill, sponsored by Sens. Charles E. Grassley, R-Iowa, and Richard J. Durbin, D-Ill., is pending in the Senate.

"This legislation is badly needed because consumer debt taken off the books by the bankruptcy system is not really erased," says Bruce Josten, executive vice president for government affairs of the U.S. Chamber of Commerce. "It is shifted to third parties, such as other households and businesses, in the form of higher prices and higher interest costs."

The McCollum, Gekas, and Grassley-

Durbin bills would make modifications to a 20-year-old federal law that many critics blame for a dramatic rise in bankruptcy filings.

The Bankruptcy Reform Act of 1978 made it more attractive to file under Chapter 7 of the bankruptcy code. Chapter 7 allows individuals or businesses to rid themselves of nearly all of their debts re-

gardless of their ability to repay them. In contrast, Chapters 13 and 11 (the latter is used mostly by businesses) allow for the repayment of debts over three to five years under a plan worked out by a debtor, creditors, and the courts.

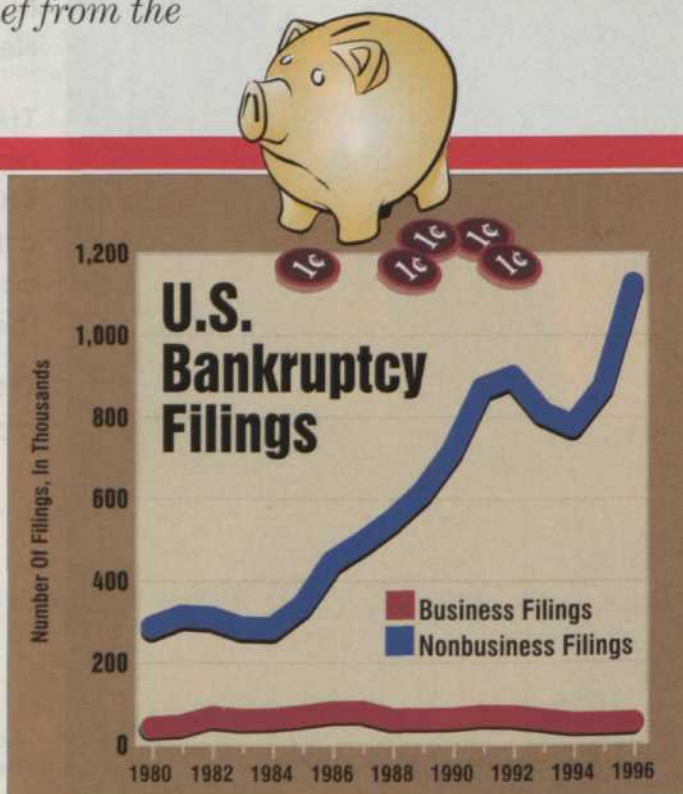
Since the 1978 act took effect, the number of bankruptcy filings by consumers has skyrocketed. (See the chart at left.) According to the American Bankruptcy Institute in Alexandria, Va., 70 percent of the consumer bankruptcy filings have been under Chapter 7.

The House and Senate bills would make it harder for those with above-average income—and the ability to repay their debts—to use a Chapter 7 filing to shield their assets from creditors. The legislation also

would ensure that creditors get adequate notice when an individual files for bankruptcy and adequate time to review a bankruptcy petition.

Also, it would improve information in the bankruptcy system by requiring filers to provide tax returns and other financial documents to the courts.

—David Warner



SOURCE: AMERICAN BANKRUPTCY INSTITUTE

## AFFIRMATIVE ACTION

### Highway Set-Asides Expected To Draw Fire

A program that earmarks 10 percent of federally funded highway-construction contracts for companies run by minorities or women is expected to come under fire this spring on Capitol Hill. The battle could be the first of several initiated this year by Republican legislators eager to curb federal affirmative-action programs.

Sen. Mitch McConnell, R-Ky., says he will try to eliminate the set-aside program for highway contracts as Congress works against a tight deadline to pass a new, long-term transportation bill that would set funding priorities well into the next decade.

A landmark six-year transportation law expired last fall, and Congress extended federal funds to states only through March 31 of this year.

The set-aside provision of the old highway law is the only major federal affirmative-action program that includes women along with racial and ethnic minorities as a disadvantaged class deserving help in obtaining a share of contracts. The states are largely responsible for awarding such contracts.

### Program Called Discriminatory

McConnell and some other legislators say the program is itself a form of discrimination and should be replaced by a program that targets a share of contracts for all firms that are economically disadvantaged.

The Association of General Contractors of America, a trade group based in Washington, endorses that approach. "The association supports open competition for government contracts without regard to race, gender, or any other irrele-

vant factor," says Michael E. Kennedy, the organization's general counsel.

### Backers Pledge Defense

But some supporters of the set-aside program pledge to defend it. They say the highway-law provision and similar minority set-asides are merely guidelines—not mandatory quotas—that are necessary and legal means to rectify past wrongs.

The set-aside issue "should be one of the first things to come up" as the Senate tackles a multiyear transportation measure this spring, says Robert Steurer, a spokesman for McConnell.

This year "will be a very active year for the anti-preference forces at the federal level," says Clint Bolick, vice president of the Washington-based Institute for Justice, a conservative public-interest organization.

—Steve Bates



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# ENTREPRENEUR'S NOTEBOOK

By Marketta Silvera

## 'Tis A Gift To Be Simple

It used to be that the only thing you had to do to stand out at a technology exhibition was to show up.

In 1993, when my business was a start-up, many technology trade shows were one-room events where vendors knew their product or service and took the time to explain how it worked. Making a sale was a natural extension of matching client needs with the right technology.

Although trade shows have made vast leaps in the number and capabilities of technologies offered, today they are little more than frenzied three-ring circuses, filled with hype that diminishes customers' hopes of finding a product that performs as promoted and matches their needs.

No business stands out by just being there. But my company, Pilot Network Services Inc.—an electronic-commerce service that provides protection from unauthorized access for corporate networks and World Wide Web sites—remains successful at trade shows for the same reasons it was in the beginning. We continue to focus on helping people understand how our service works by explaining it in terms anyone can understand.

When desperation to make a sale precludes making clear explanations and taking genuine interest in customers' needs, your business has a problem—no matter how good its ideas are.

Here are some steps you can take to make sure you don't fall into that trap:

*Marketta Silvera is founder and CEO of Pilot Network Services Inc. in Alameda, Calif. She prepared this account with Contributing Editor Susan Biddle Jaffe. Readers with insights on starting or running a business are invited to contribute to this column. Write to: Entrepreneur's Notebook, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062-2000.*

### Don't assume understanding.

Customers' power to make buying decisions and their understanding of technology don't always go hand in hand. Ask questions to determine the customer's level

### Don't make promises you can't

keep. With technology, today's state of the art is likely to be obsolete tomorrow. Rather than hyping something as the ultimate answer, promote your product

with realistic expectations and a company history of cutting-edge solutions.

**Listen to your customers first.** Instead of first coming up with a product and then trying to sell it to everyone, identify your customers' specific problems. If you develop products that will solve those problems and help clients reach their potential, you'll be selling from a point of strength.

**Develop a whole solution.** Many people believe it is enough to announce: "We have the technology." But it's not enough. You have to demonstrate how your

products can be part of the bigger picture.

To stand out in a crowded exhibit hall, you have to explain how your offering can contribute to a business. Unless you do that effectively, your company will never be more than just one of the crowd. **NB**



PHOTO: GILDA SUE SCOTT

**Steering clear of techno-speak and explaining your product or service in understandable terms are the keys to success at technology exhibitions, says Marketta Silvera of Pilot Network Services Inc.**

of understanding. Adjust your presentation and explanations accordingly.

**Explain clearly what your product or service can do.** There are plenty of purported solutions out there veiled in lots of convoluted lingo that makes them sound like "the answer"—until potential customers turn away, unsure of what is true and what is hype.

Rather than conceal your product or service behind excessive techno-jargon, explain in plain English how your company can meet a client's needs.

Be specific about how a new product or service will change the way the client is doing business. Tell what new equipment, training, or personnel will be needed.

**Be prepared to turn away a customer who is a poor fit.** Leading clients into ventures whose scope they don't understand or are unprepared to handle will only result in lost business down the road.

## WHAT I LEARNED

*Avoiding hype and focusing on clear explanations can help technology firms stand out at trade shows.*



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# Managing Your Small Business

*Training to keep the ship afloat; growing in the shadows of giants; relaying the timeless truths.*

By Thomas Love

## PLANNING

### Keeping The Business Going When An Executive Is Absent

The serious illness of a key executive in a small company can spell disaster for the firm—unless that person has trained others to conduct operations smoothly during an extended absence.

Patricia A. Louko, founder and president of Books Plus of Palm Beach County, an off-campus college bookstore in Lake Worth, Fla., has that kind of foresight. If she didn't, she might not be in business today.

Books Plus' primary customers are the students at the four campuses of Palm Beach Community College. Louko does nearly all of her \$800,000 worth of business each year during the two-week periods in September and January before the start of the fall and spring semesters.

If the store were forced to close for even a short time during one of these busy periods, Louko says, the company would be in real trouble.

In December 1995, just before the rush of second-semester buying, Louko became ill. It appeared to be flu, and Louko didn't think she could take any time off to nurse her illness. On New Year's Day, she became delirious and was hospitalized with what turned out to be endocarditis, a heart-valve infection. Her doctors insisted that she couldn't return to work until after the start of the spring semester.

Because Louko operates the firm by what she calls "a total team approach," her business not only survived but rang up higher sales than it had the previous January.

All of Louko's employees are part-timers, but all are cross-trained to perform every job, including customer service, ordering, receiving, and book buyback.

All employees also have genuine input into how the store is run, Louko says. "Any employee is entitled to make any decision [on matters such as price and trade-in] when working with customers, and I usually go along with it," she explains. "We have meetings about what will work and what will not work. I'm open to 'How do you think we can do this better?' If the group's in agreement, we switch."

Louko's management style—and the way it saved Books Plus in 1996—led to her being named a 1997 honoree in the Blue Chip Enterprise Initiative, an annual



PHOTO: STOM SALVER

**It's business as usual—even if a key executive is absent—because bookstore owner Patricia Louko, right, has all employees, such as sales associate Donna Campbell, cross-trained.**

program that recognizes small firms that have met challenges. The sponsors are Massachusetts Mutual Life Insurance Co., known as MassMutual—The Blue Chip Company; the U.S. Chamber of Commerce; *Nation's Business*; and "First Business," the weekday morning television

news show presented by the Chamber.

Louko's approach to management paid off again in June, after she had another attack of endocarditis. In November, she underwent open-heart surgery, and the company ran well during her absence. She is now back at the store running things herself. ■

## FACILITIES MAINTENANCE

### How To Prevent Damage From Electrical Problems

A recent survey of 200 New York City office and residential buildings produced disturbing results: Electrical systems in 25 percent of the buildings were so unsafe that they required attention within 30 days.

To avoid electrical-system problems and reduce the chance of fire they can cause, small firms should take preventive measures, says Matthew Glennon, assistant vice president of electrical-loss control for Hartford Steam Boiler Inspection and Insurance Co., the Hartford, Conn., company that did the survey.

Most electrical problems arise from con-

nections in the box where the outside electrical line enters the building and is split into several circuits. During preventive maintenance, an electrician should check the panel to make sure that the connections are clean, dry, and tight, Glennon says.

How often should preventive maintenance be done? "There is no correct answer," Glennon says, "but my recommendation is every three years." He adds that as the amount of a business's electrical equipment increases, preventive maintenance becomes more important and inspections should become more detailed.

Also, Glennon advises business owners to make sure they have appropriate insurance to cover equipment breakdowns. ■



## MARKETING

### Using Convenience As A Competitive Tool

Frank Mendicina recalls that people considered him "an idiot" five years ago when he bought an office-supply store in the Los Angeles suburb of Alhambra. No wonder: At the time, the 65-year-old firm—then called Alhambra Typewriter Co., now Select Home/Office Outlet—was competing with 15 to 20 office-supply superstores within a 10-mile radius.

Mendicina was trying to expand and diversify his principal business, Select Office Solutions, a photocopier and fax-machine dealership with five locations in the Los Angeles area. The plan called for broadening that company's line of products to include computers, word processors, and other office-automation equipment.

"We thought we could expand our customer base for equipment sales with the sale of supplies [from the new store] and make money while we were doing it," Mendicina says. "The question was, how could we compete with the superstores?"

Customers told him that his newly purchased store had been charging too much. In response, he developed and sent to area firms a catalog of about 2,000 items—including most of the products carried by the superstores. He guaranteed to meet or beat the superstores' prices on the catalog items.

But lowering prices was not Mendicina's only competitive tactic. He also began pro-



PHOTO: GARY BARTHOLOMEW

**By offering service that he says his superstore rivals couldn't match, Frank Mendicina has made his office-supply store a thriving competitor.**

viding service that he says the superstores couldn't match.

Office-supply stores primarily serve commercial customers who want convenience, Mendicina says. And convenience is what he strives to give them, he adds. "We have a knowledgeable staff that can answer a customer's questions, and we will special-order items that the superstores do not handle." Sales representa-

tives will go to a customer's business to take orders, he adds, "and we can deliver within 24 hours." On entering the store, a customer is greeted by a salesclerk and isn't left to search for items.

Select Home/Office Outlet provides factory-authorized repair services for a number of brands, either at the store or at the customer's location, and it builds, maintains, and services computer networks.

The retail store did about \$1.8 million in business last year, about 10 percent of Select Office Solutions' sales total. "We would like to double that, and I think we can in 12 months," Mendicina says. Not bad for "an idiot."

## MENTORING

### The Old-School Keys To Business Success

One adverse consequence of downsizing, re-engineering, and restructuring in many U.S. businesses has been the loss of longtime employees who would have served as mentors for young and inexperienced workers, says Jack Carew, author of *The Mentor* (Donald I. Fine Books, \$19.95).

"Mentoring is what these turbulent times demand," he says. "But our heroes—and their wisdom—are gone. In some quarters, these initiatives have robbed people of their future and some organizations of their souls."

As a result, Carew continues, "some of us have no mentors, and we have been called upon to figure it all out for ourselves. Many of the young people entering business today have little in common with their leaders, and they suffer from their managers' inability to provide them with the wisdom and inspiration they crave."

Carew's book is intended to help fill the void that he sees. The narration takes the form of an imaginary conversation between two young salespeople and an older, successful employee who talks his colleagues through his 15 keys to success.

Among the points that the mentor emphasizes:

**Embrace the truth.** Each of us has a duty to be the business world's most vigorous advocate of the truth. There is no future in our relationships if we deceive our customers.

**Admire yourself first.** To find the good in others, find the good in yourself.

**Power up with excitement.** Passion is the magic that makes possible otherwise impossible-to-meet goals.

**Compete with energy.** Competitive-ness comes from the soul. It's a compelling desire to succeed. It's your ability to look down the barrel of a competitor's gun and be motivated instead of intimidated.

**Resolve with passion.** Make sure your customer feels your heart when you make a sales presentation. The customer will pay for your passion because it is, after all, the best thing you have to sell.

**Close [a sale] with courage.** Closing is a strategic moment that represents a test of courage.

**Bounce back from rejection.** The business environment is an emotionally charged arena with exhilarating highs and crushing lows. Like injured athletes, salespeople have to play when they're hurting.

## NB TIP

### Voice-Mail Marketing

If you want your firm's voice mail to be an efficient marketing tool, says Ilse Benun, author of the handbook *133 Tips to Promote Yourself and Your Business*, the message should contain these elements:

- A seven-word blurb about the services and products you offer.
- All the various ways someone can contact you—address, fax, and electronic mail, for example.
- Announcements about upcoming events, such as sales and promotions.
- Any special discounts you're offering.
- A time when you will be available to return calls.
- Whenever possible, an option to speak with a person.
- A way to skip past your message.

Benun's handbook is \$8 but is free with a subscription to her quarterly newsletter, *The Art Of Self-Promotion*, available for \$30 a year. Write to P.O. Box 23, Hoboken, N.J. 07030-0023; or call 1-800-737-0783. NB



## COVER STORY

# Surplus Mania

By James Worsham

**T**he last time Uncle Sam had more money than he knew what to do with was more than a generation ago.

Richard Nixon was settling into the White House, war was raging in Vietnam, hair was long, and skirts were short. And the word "trillion" wasn't yet part of Washington's everyday vocabulary.

It was 1969. The federal government had posted a \$3.2 billion surplus, thanks mostly to a temporary 10 percent surcharge on personal and corporate income taxes to help finance the war. The surcharge had added \$9 billion to that year's federal revenues—enough to produce the \$3.2 billion surplus after the \$183.6 billion of spending in that year's budget.

The surcharge was terminated by law in 1970, about the time the economy went into a recession and federal budget surpluses disappeared.

Now, surpluses are on the horizon again, and federal policy-makers, the business community, and the nation are facing opportunities that they haven't encountered in nearly three decades.

The Congressional Budget Office is forecasting all-but-balanced budgets—deficits of \$5 billion or less on spending of around \$1.7 trillion—for 1998, 1999, and 2000. In 2001, the CBO says, a \$14 billion surplus will emerge.

Surpluses will continue to rise, the CBO forecasts, from 2001 to 2008, except for a slight decline in 2003.

*Robert T. Gray supplied information on the national debt for this story, and Joan Pryde contributed material on tax matters.*

## Federal Revenues And Spending 1960-2008

In Billions

\$3,000

2,500

2,000

1,500

1,000

500

0

1960

1965

1970

1975

1980

1985

1990

1995

2000

2005

2008

Amounts from 1998 through 2008 are Congressional Budget Office projections.

Federal Revenues  
Federal Spending

SOURCES: BUDGET OF THE U.S. GOVERNMENT (HISTORICAL TABLES); U.S. DEPARTMENT OF THE TREASURY; CONGRESSIONAL BUDGET OFFICE

The president, meanwhile, has submitted a fiscal 1999 budget that projects a \$9.5 billion surplus.

Some private economists are more optimistic, however, forecasting that the government could post a surplus of tens of billions of dollars for fiscal 1998, which ends Sept. 30. Thus, the federal budget could go into the black four years ahead of the schedule projected in last year's historic budget agreement.

Such forecasts have emboldened supporters of tax cuts and proponents of new spending. While many Republican congressional leaders plan to push for a variety of tax cuts, President Clinton proposed in his Jan. 27 State of the Union address that any surplus be set aside for Social Security. "Let us say to all Americans watching tonight,

whether you're 70 or 50, or whether you just started paying into the system, Social Security will be there when you need it," he said. "Let us make this commitment: Social Security first." He thus established a firm starting point for the surplus debate.

Clinton proposed town-hall meetings on Social Security around the country this year, a White House conference in December, and negotiations between the administration and Congress next year on a long-term solution.

Top administration officials subsequently explained to the House and Senate budget committees that Clinton favors using a surplus to pay down the national debt until long-term reforms of the Social Security system can be agreed upon and enacted.



*In an era of balanced budgets and possible revenue surpluses, the business community and the nation face opportunities they haven't seen in a generation.*



It is because of the currently growing surplus in the Social Security trust fund and money in other government trust funds that the overall, "unified" budget can show surpluses or near-surpluses. Without the trust funds, last year's \$22 billion deficit would have been \$146 billion, according to the CBO. Unless reforms are enacted, however, the Social Security nest egg will begin to shrink when baby boomers start retiring in about 10 years.

During his State of the Union address, the president also proposed about \$140 billion worth of new spending programs and tax credits over five years, which he suggests paying for with money from a proposed settlement with tobacco companies and the elimination of some tax advantages for businesses.

Meanwhile, Federal Reserve Board Chairman Alan Greenspan as well as some members of Congress from both political parties would prefer to see any surplus used for paying down the \$5.5 trillion national debt. Reducing the debt—the accumulation of annual federal deficits—would lower the amount of interest paid on it by taxpayers and could push down interest rates for businesses and homeowners.

Like Clinton, some lawmakers want to set aside surpluses for Social Security, and others in both political parties want to use the surplus to shore up the Medicare program, which provides health insurance for the elderly. The Medicare trust fund for hospital expenses—



PHOTO: LUKE FRAZZA—AP PHOTO

**"Let us say to all Americans watching tonight ... Social Security will be there when you need it."**

—President Clinton,  
State Of The Union Address

Part A of the program—is projected to run out of money in 2007, 22 years before Social Security is projected to go bankrupt.

The business community, which has spent years lobbying for a balanced budget and a smaller federal government, is drafting its strategy on a federal budget surplus with an eye toward ensuring

that economic progress continues and that achievements on fiscal discipline aren't lost.

"We don't have a surplus yet, and we ought to make sure we have one before we spend it on anything," says Bruce Josten, executive vice president for government affairs of the U.S. Chamber of Commerce.

Businesses have a big stake in the outcome of the surplus debate, Josten says. "We want to make sure that whatever the surplus is used for promotes the same kind of economic growth and job creation that have benefited the country over the past seven years," he adds.

Stanley Collender, managing director of the federal-budget consulting group for New York City-based Burson-Marsteller, a public-relations firm, notes that with the economy growing, federal revenues rising, and congressional elections approaching, it may be hard for Congress to keep a lid on new federal programs, tax cuts, or some way to "spend" the surplus.

"It's kind of like \$5 burning a hole in your pocket," he says.

**E**ven as proposals to allocate a surplus emerge, Collender and other economists warn that the underpinnings of the current near-surplus are fragile and may be fleeting. "It's totally dependent on the economy," Collender says.

"As soon as you get a downturn in the economy, [the surplus] goes away."

Today's would-be surplus is in large part a result of the robust U.S. economic expansion, which is now in its eighth year and is the third-longest since World War II. Most economists don't see it ending this year, but this year's economic growth is forecast to be significantly





## COVER STORY

smaller than last year's. Gross domestic product is expected to grow by about 2.5 percent in 1998, compared with last year's 3.8 percent increase.

The business expansion has resulted in a net increase of 13 million jobs since it began in March 1991, generating more income on which taxes are paid. And the boom on Wall Street has boosted capital gains and the taxes paid on them.

Additional revenue is being collected as a result of the 1993 budget package. It created two new top tax brackets, boosted the portion of Social Security checks subject to income tax, and raised the federal gasoline tax by 4.3 cents a gallon.

Tax cuts in 1996 and 1997, including those for capital gains and estate taxes, are not expected to make a dent in revenue growth. Even after two rounds of cuts, the 1993 tax changes are expected to result in \$135 billion in extra revenue being collected by the government over the next five years, according to the CBO.

Nonetheless, continuing Asian financial troubles represent a potential threat to economic growth, as would a major military conflict or an interruption in oil supplies. And Wall Street, where profits are contributing to tax coffers, sooner or later is bound to fall on harder times, many observers say.

"It would be irresponsible to base future budget policy on the optimistic assumption that those stock-market gains will continue at the current rate—and that no recession will occur in the years ahead," says Murray Weidenbaum, a former chairman of the Council of Economic Advisers and now chairman of the Center for the Study of American Business at Washington University in St. Louis.

Another pressure point on the economy is evident in unemployment—now at its lowest rate in a quarter-century, reflecting the fact that the economic expansion has created so many jobs that finding qualified individuals to fill vacancies is becoming harder for many firms.



PHOTO: EDENIS BRACK—BLACK STAR

**"I intend to provide additional tax relief—this year."**

—Rep. Bill Archer, Chairman, Ways and Means Committee

This development could push wages up, fuel inflation, and prompt action by the Federal Reserve Board to cool the economy, all of which could trigger an economic downturn, according to some economists. Indeed, in late January, the U.S. Labor Department reported that total compensation rose 3.3 percent last year, up from 2.9 percent in 1996 and 2.7 percent in 1995.

In addition to possible downturns in the economy, another unknown variable in the budget-surplus forecasts is the accuracy of the forecasts themselves. The CBO's projections for "statistically

insignificant" deficits in the next few years could be wrong. In February 1997, for example, the CBO projected a fiscal 1997 deficit of \$124 billion (and the Clinton administration projected \$125.6 billion), but the actual deficit proved to be far lower—\$22 billion.

The CBO cautions that the surplus-

deficit picture could easily shift either way at any time. For example, a 2 percent error in revenue and spending projections by the CBO could cause the figure to swing \$60 billion either way—surplus or deficit.

Nonetheless, signs increasingly suggest that a surplus will occur in the current fiscal year. Through December, the third month of fiscal 1998, tax collections were projected to be 11.9 percent ahead of the same period the year before, according to the CBO and the U.S. Treasury Department. And Treasury has announced it will pay off about \$75 billion in federal debt this spring.

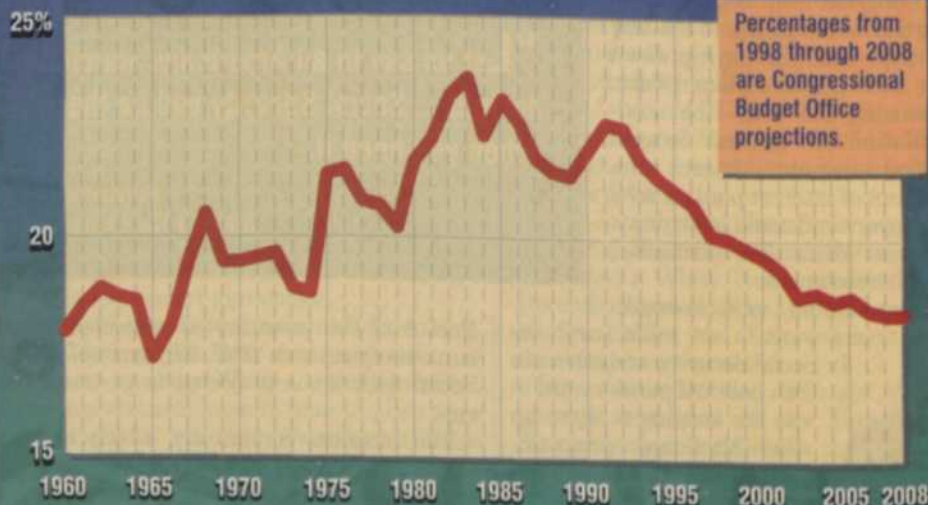
Many economists think that projections of a meaningful surplus are overly optimistic, which has caused them to approach a potential surplus with caution. "Washington should not bank on it," says Scott Hodge, a senior fellow at the Heritage Foundation, a conservative policy-research organization in Washington. "We should think about what to do with a surplus but not build on any expectation."

Robert Greenstein, director of the liberal Center on Budget and Policy Priorities, also a policy-research organization in Washington, is of a similar mind. "You don't want to put in place policies that would make [potential future] deficits even deeper," he says.

While economists call for caution,



## Federal Spending As A Percentage Of Gross Domestic Product 1960-2008



SOURCES: BUDGET OF THE U.S. GOVERNMENT (HISTORICAL TABLES); U.S. DEPARTMENT OF THE TREASURY; CONGRESSIONAL BUDGET OFFICE



though, many policy-makers and lawmakers have their eye on the prize: new money. And they're eager to make decisions on what to do with it.

Here is a look at the various options, who is backing them, and why:

## Taxes: Time For Cuts?

With Treasury expecting billions in extra revenue and the budget approaching balance, some private economists, public-policy-research organizations, and congressional leaders say some of the surplus should be returned to taxpayers in the form of tax cuts.

Despite some tax reductions in 1996 and 1997, proponents of additional cuts insist that America's tax burden is far too great. The Tax Foundation, based in Washington, says the average taxpayer worked a record 129 days in 1997, or until May 9, to earn enough money to pay his or her combined federal, state, and local tax bill.

Federal taxes on Americans are now 19.9 percent of gross domestic product, the highest since World War II, noted Rep. Bill Archer, R-Texas, chairman of the tax-writing House Ways and Means Committee, in announcing a tax-cut proposal in January. Archer wants to cap taxes at 19 percent of GDP. "Taxes remain too high, so I intend to provide additional tax relief—this year," he said.

But not everyone agrees that Americans pay too much in taxes. The Center on Budget and Policy Priorities says that although the 1993 tax law created two new tax brackets with rates higher than the previous top rate, most individuals did not see their tax bills rise because the new brackets applied only to individuals at the top of the income scale.

## Relief Proposals

The tax provision that results in the so-called marriage penalty is mentioned frequently by members of Congress who want to reduce taxes further this year.

Under tax law, married individuals who file joint income-tax returns typically pay

several hundred dollars more per year than they would if they filed as single individuals, which they are not permitted to do. (Married couples can file separate tax returns, but that status—"married filing separately"—also carries a higher tax rate than the single filing status.)

House leaders, including Speaker Newt Gingrich, R-Ga., and Budget Committee

Chairman John Kasich, R-Ohio, have said they will push for legislation this year to allow married taxpayers to file as singles if they choose. House Minority Leader Richard Gephardt, D-Mo., has also endorsed eliminating the marriage penalty in a tax-reform proposal he plans to introduce.

Also high on the list of many lawmakers backing tax cuts is adjusting the law on the alternative minimum tax (AMT) as it applies to individuals so that middle-income people don't end up subject to the tax.

The AMT was enacted in its present form in 1986 to make sure that high-income individuals as well as profitable companies pay their

fair share of taxes. But because the exemption amount has never been adjusted for inflation, government economists say, over the next several years it will increasingly snare individuals for whom it was never intended.

## Views From The Hill

The chairmen of the House and Senate tax committees are interested in spreading the benefits of any tax reductions to many more taxpayers.

Ways and Means Committee Chairman Archer said in January that he wants to explore the possibility of expanding the number of Americans covered by the lowest income-tax rate of 15 percent. He also wants to deepen the estate-tax and capital-gains cuts enacted in 1997. Archer suggests using half of any budget surplus to pay down the national debt and the other half to pay for tax cuts.

Senate Finance Committee Chairman William V. Roth Jr., R-Del., says: "If the surplus permits, we should give taxpay-

ers an across-the-board tax cut. That way, all taxpayers benefit."

Gingrich also wants to cut rates or increase the personal exemption to give a tax cut to as many people as possible. He supports a group of Republican freshmen who have offered an array of tax-cut proposals. The freshmen would address the marriage penalty by doubling the standard income-tax deduction for married couples. They also would speed up the scheduled increase in the size of the tax deduction for health-insurance costs of the self-employed.

Most Democrats in Congress aren't jumping as quickly onto the tax-cut bandwagon. Senate Minority Leader Thomas Daschle, D-S.D., has said he wants to see the surplus before figuring out how to spend it.

House Minority Leader Gephardt recently—and bluntly—told Republicans: "Keep your hands off the surplus." Gephardt says that if a surplus does materialize, "it should be spent to ensure the economy grows for everyone and to give a tax break to working people."

## Tax-Cut Pros And Cons

"The bottom line is that Americans need a tax cut," says Matt Kibbe, vice president for public policy at Citizens for a Sound Economy, based in Washington. "If there are higher-than-expected revenues, those revenues [should be] reserved for tax-cut legislation."

Alan Reynolds, director of economic research for the Hudson Institute, an Indianapolis-based policy-research organization, says the best boost for the economy would be a cut in income-tax rates now—even before any surplus emerges.

But others maintain that an income-tax cut would be the wrong course of action. Enacting tax cuts paid for with a budget surplus—a calculation that is possible only if the surpluses in the Social Security and other trust funds are included—means "you would be spending the Social Security money that's supposed to pay for the baby boomers' retirement," says Martha Phillips, executive director of the Concord Coalition, a policy-research organization in Washington.

"Having their tax cut now would presumably force their children to pay for their retirement," she says.

## Spending: A Renaissance?

Although any sizable budget surplus that might materialize could be short-lived, the prospect of extra federal money



PHOTO: OSEAN GALLUP—REUTERS

**"We should give taxpayers an across-the-board tax cut."**

—Sen. William V. Roth Jr.,  
Chairman, Finance Committee





## COVER STORY

for the first time in nearly three decades has encouraged some significant proposals for new domestic spending.

Let anyone think the deep deficits of the Reagan-Bush years and the Republicans' becoming the majority party in Congress in 1994 drove all the big spenders from the legislature, the Senate's leading liberal Democrat, Edward M. Kennedy of Massachusetts, made it clear in a National Press Club speech in December that he still has a spending agenda: "We may see a series of surpluses in the years to come. There will be a battle royal in Congress over how to allocate them."

The deficits of the 1980s and early 1990s all but killed proposals for the kind of domestic spending programs that Kennedy, Clinton, and many other Democrats have favored.

And the deficits led Congress to enact in 1990 various limits on federal outlays, such as caps on discretionary (domestic, defense, and international) spending—the third of the budget left over after checks are written for entitlement programs such as Social Security and Medicare and for interest on the national debt.

As a result of those 1990 changes and others in 1993, nondefense discretionary spending has been at close to a standstill for most of this decade. While defense spending as a percentage of GDP fell to 3.4 percent in 1997 from 5.3 percent in 1990, domestic and international spending held at 3.5 percent over the same period, according to the CBO.

Defense now accounts for half of discretionary spending and was around \$300 billion annually at the beginning of the decade. This year, military spending is set at \$268 billion.

However, the prospects for further reductions in the Pentagon budget are "probably over," says William Niskanen, chairman of the libertarian Cato Institute in Washington.

Many defense-policy analysts and others believe that Pentagon spending has been cut as far as it can be, and some be-

lieve it should rise again. For example, Senate Majority Leader Trent Lott, R-Miss., in the Republican response to the State of the Union speech, mentioned the long-proposed idea of a missile defense system to guard against renegade attacks on the United States.

Moreover, although the federal government has eliminated about 321,000 jobs since 1993 as some federal programs have been curtailed, the president has

social programs in his new domestic initiatives. While he suggests funding those initiatives with \$66 billion from a cigarette tax he wants in the proposed tobacco settlement—which has an uncertain future in Congress—and making nearly \$25 billion in changes in business-tax rules, Republicans question whether money gained in those ways would be enough.

Among Clinton's proposals:

**Medicare.** Clinton wants to make Medicare available to younger retirees—ages 62 to 65—and to those as young as 55 who can't find work. Currently, the eligibility age is 65. The early entrants to Medicare would pay for most of their own coverage.

This would be one of the largest expansions of Medicare in decades and would come at a time when the program itself is bordering on financial insolvency; a blue-ribbon commission is searching for a way to reform it. Key congressional Republicans have criticized the plan because Medicare's fiscal problems haven't been resolved.

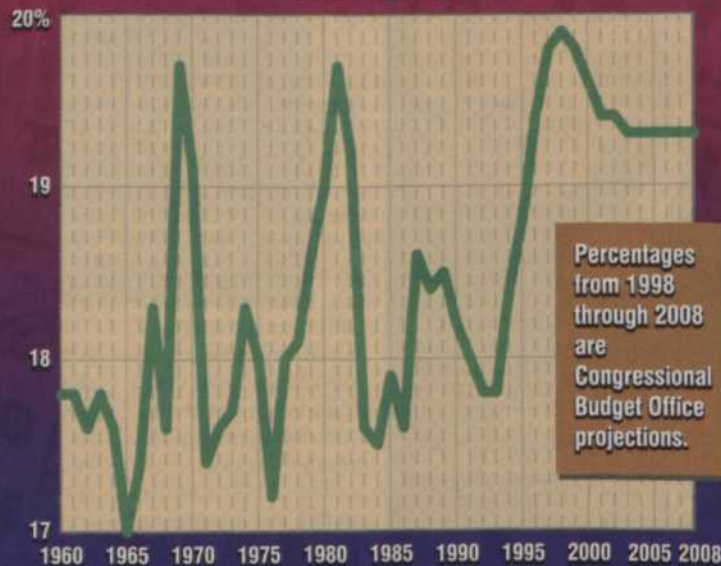
**Child care.** Clinton proposes \$22 billion in spending and tax subsidies over five years for child care. Included would be block grants to states to subsidize child care for low-income families, increased funding for the Head Start program for preschool children, and creation of programs to improve safety and training at child-care facilities.

Moderate Republicans in the Senate are working on a child-care proposal that would help parents who stay home to care for their children.

**Education.** The president wants to spend \$25 billion over five years to help school districts pay for building and renovating public schools, adding teachers in elementary schools, and funding after-school child-care programs. Similar plans were rejected by congressional Republicans last year.

In response to White House proposals, a group of Republican senators has put together a package of proposals, some of which were debated and considered last

## Federal Revenues As A Percentage Of Gross Domestic Product 1960-2008



SOURCES: BUDGET OF THE U.S. GOVERNMENT (HISTORICAL TABLES); CONGRESSIONAL BUDGET OFFICE

won some spending increases in areas such as health care and education.

Nonetheless, new spending proposals—whether they rely on a forecast of a surplus or assume other sources of financing—threaten prospects for continued fiscal discipline, some economists say. "There's a potential for a weakening of the budget rules that have served us well," says Greenstein of the Center on Budget and Policy Priorities. "The single most important thing is to maintain the pay-as-you-go rule."

### A Spending Agenda

In the debate over a possible surplus, two major areas of domestic spending are receiving prominent attention: domestic social programs, such as health, education, and child care; and infrastructure, chiefly the building of highways and bridges and the repair or replacement of those that are crumbling or inadequate.

The president has focused mainly on





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## COVER STORY

year. It would provide tax breaks for parents sending children to private or parochial schools, return \$3 billion in federal money to the states, and set up more than 20 pilot programs for vouchers for low-income pupils.

Kennedy has also staked out his agenda. His December speech included some proposals that would require massive federal outlays: adding 1 million teachers to the nation's public schools over a decade; providing \$3,000 a year in college aid to all qualified students; an expansion of the successful Head Start program; and more funding for medical research.

### Rebuilding The Roads

Meanwhile, support is growing on Capitol Hill for spending some portion of a surplus to boost funding for transportation needs, mainly highway and bridge improvements. Funding would come from the \$23 billion surplus in the highway trust fund, which, like the surplus in the Social Security trust fund, is helping to create on paper the near-surplus in the unified budget.

The surplus in the highway trust fund is expected to grow faster because the 1993 gasoline-tax increase was assigned last year to the highway trust fund instead of the general fund. Annual revenues flowing into the trust fund are expected to increase to \$38 billion in fiscal 1999 from \$26 billion this year.

The leader of this drive for more highway spending is Rep. Bud Shuster, R-Pa., chairman of the House Transportation and Infrastructure Committee. Shuster wants to spend more money from the highway trust fund than the current budget agreement will allow.

The 1997 budget deal agreed to by Congress and the president calls for annual transportation spending from the trust fund of \$29.5 billion over six years. Shuster introduced legislation that would boost that to \$36.3 billion a year, which would break the budget agreement. A Senate bill calls for \$30.1 billion a year.

Before it recessed in November, Congress agreed to keep highway money going to the states through the end of

March under a funding extension to give lawmakers additional time to pass a new highway-funding bill.

### The Debt: Pay It Off?

While the growing economy and added revenues have all but wiped out projected deficits, they have done nothing to attack the staggering national debt—the legacy of three decades of annual deficits.

The national debt stands at \$5.5 trillion. Eighty-five percent of it was run up in just the past 20 years, when annual budget deficits ran into the hundreds of billions of dollars, peaking at \$290 billion in 1992.

Of the total debt, \$3.8 trillion is owed to the public, both in the United States and overseas, through marketable securities such as government bonds issued by the Treasury Department; the rest is represented by nonmarketable securities purchased from the Treasury Department by various government trust funds. (See "The National Debt In Brief," Page 21.)

When there's a surplus, the Treasury Department would simply pay off, instead of roll over, securities as they come due, from U.S. and foreign bond holders or other government accounts such as the Social Security trust fund.

Annual interest payments on the public

PHOTO: EDENIS BRACK—BLACK STAR

**"Keep your hands off the surplus."**

—House Minority Leader  
Richard Gephardt

debt now constitute 15 percent of government spending—a share of the budget as big as the portion for defense spending or domestic discretionary programs.

Even in a Congress usually attracted to tax cuts and spending programs, there is significant support for paying down the national debt. Rep. Mark W. Neumann, R-Wis., a leader of the debt-reduction forces in the House, is sponsoring the National Debt Repayment Act, which would keep spending growth one percentage point below revenue growth and, by his calculations, permit repayment of the debt by 2026.

Members of the House who have signed on to the Neumann bill include Gingrich, who told the Cobb County (Ga.) Chamber of Commerce on Jan. 6: "The surplus's first goal should be to pay down the debt."

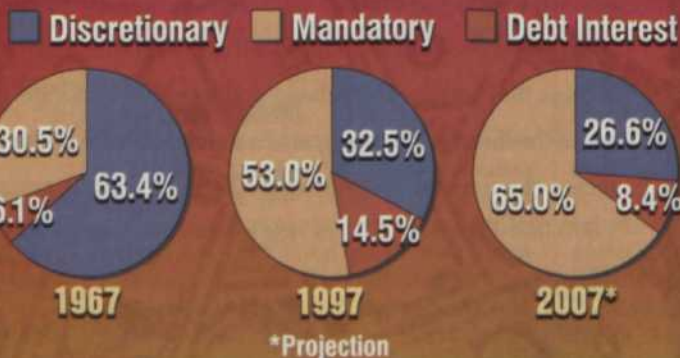
Some Democrats also have urged using a surplus for debt repayment. Sen. Daniel Patrick Moynihan of New York, the senior Democrat on the Senate Finance Committee, says, "Any unified-budget surpluses that arise in the current expansion should be used to reduce the federal debt held by the public."

There is also strong support in the private sector for paying down the debt except under emergency conditions such as war or severe economic crisis.

A survey of members of the National Association of Business Economists, a Washington-based group, showed that their top choice for using the surplus was debt reduction, which commanded a 57 percent majority, with tax cuts a distant second at 21 percent. An additional 13 percent favored a combination of debt payment and tax cuts.

Perry Quick, national director of economic consulting and

## Where The Federal Dollar Goes



SOURCE: CONGRESSIONAL BUDGET OFFICE





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## COVER STORY

quantitative analysis for Ernst & Young, a major accounting and consulting firm, says that deferring a decision on the disposal of the surplus, pending a review of long-term obligations such as Social Security, would be sound policy. Any review, however, should be based on "economic reality," not government accounting procedures, he adds.

Under current estimates and without any reforms, the growing Social Security surplus is due to peak in 2018 as baby boomers retire and annual payroll taxes fall short of covering retirees' checks. The trust fund would go into the red in 2029. From now until 2029, the number of tax-paying workers for each benefit-receiving retiree is expected to drop to 2.0 from 3.25.

Despite a wide range of support, debt repayment doesn't command universal backing. For example, Jack Kemp, vice presidential candidate on the 1996 Republican ticket with Bob Dole, derisively calls the idea "austerity economics" and insists that the economy would be better off with a big tax cut. Kemp is co-director of Empower America, a public-policy and advocacy organization in Washington.

Another view comes from Francis

X. Cavanaugh, who for more than 30 years was a federal executive dealing with debt-management policy at the Treasury Department.

While disagreeing with others on the overall impact of the debt, Cavanaugh, author of *The Truth About the National Debt* (Harvard Business School Press; \$22.95), nevertheless does not support deficit financing. He joins with those favoring a balanced budget in terms that few of them would challenge. He writes:

"The real reason we should hate the deficit is that politicians should not have the pleasure of spending (getting votes) without the pain of taxing (losing votes)."



PHOTO: DENNIS BRACK—BLACK STAR

**"There will be a battle royal in Congress" over surpluses.**

—Sen. Edward M. Kennedy,  
Senior Democrat, Labor And  
Human Resources Committee

2011 (when they reach 65), are now in their peak earning years.

Others believe that any budget surplus should be used to fund a transition to a Social Security system that could be at least partially privatized with personal retirement accounts for all Americans—accounts that would be run in ways similar to individual retirement accounts (IRAs) and 401(k) plans.

Such a move could require, however, that at least one generation of Americans would pay twice: to honor the commitments to the baby boomers

and to initiate a different type of retirement financing for themselves, according to Bob Bixby, policy director for the Concord Coalition.

Martin Corry, director of the federal-affairs department at the Washington-based American Association of Retired Persons, cautions that a shift away from the "forced savings" of Social Security to individual accounts has its dangers. Too many people would find it too easy to skip contributions and spend money on current family or individual needs, he says.

### Tax-System Overhaul

Support is evident in Congress and among some private economists to use surpluses to make up for any revenue shortfall that would result from a comprehensive reform of the tax code.

One of the key arguments against a major overhaul of the tax code is that it could blow a hole in the progress toward eliminating the budget deficit. Economists have found that tax rates for the most popular alternative systems, including a flat tax and a national sales tax, would have to be set prohibitively high to raise the same amount of revenue for the government as does the current income-tax system. But restructuring the tax code when the budget is in surplus would eliminate that concern, say some reform proponents.

"Don't fritter away a growing surplus—and the important reform opportunities it would make possible—by [enact-

## Trends In The Gross Federal Debt

Year	Amount, In Billions	Amount As A Percentage Of Gross Domestic Product
1950	\$256.8	94.2%
1955	274.3	69.4
1960	290.5	56.1
1965	322.3	46.9
1970	380.9	37.7
1975	541.9	34.9
1980	909.0	44.3
1985	1,817.5	33.4
1990	3,206.5	56.4
1995	4,921.0	68.5
2000*	5,915.7	65.4

\* Figures are estimates.

SOURCE: BUDGET OF THE U.S. GOVERNMENT (HISTORICAL TABLES),  
FISCAL YEAR 1999

### Reforms: Enact Them?

Two other uses have been suggested for any surplus: paying to overhaul the tax system and to reform the Social Security system. There is no consensus on how either should be reformed—only that major changes are needed in both.

### Social Security Reform

A major force behind the drive to devote any surplus to paying off the national debt is the concern over the current Social Security surplus, which covers up deep deficits in the unified budget.

"The surplus in the unified budget is entirely a function of the surplus in Social Security," says Greenstein of the Center on Budget and Policy Priorities. It's important, he adds, to build up Social Security reserves while the baby boomers, who will start retiring between 2008 (when the first of their generation reach age 62) and



ing] new entitlements and junk tax cuts," says Niskanen of the Cato Institute. "Since a major tax reform would increase economic growth and reduce the relative debt burden, I would not hesitate to use a pending budget surplus to finance the resulting short-term revenue loss" that restructuring would cause, he says.

**A**lthough leaders in both parties discourage too much "surplus talk" before the black ink appears, the debate in Washington is gaining momentum. Among the public there appears to be little consensus, how-



PHOTO: ©DENNIS BRACK—BLACK STAR

**"The surplus's first goal should be to pay down the debt."**

—House Speaker  
Newt Gingrich

ever. A Harris Poll in November showed that 45 percent of the respondents preferred to use a surplus to reduce the national debt, 41 percent wanted to cut taxes, and 13 percent would increase spending.

A late 1997 *Wall Street Journal*/NBC News poll showed that 30 percent of respondents favored education spending, 30 percent preferred Social Security and Medicare reform, 21 percent chose reducing the debt, and 12 percent wanted tax cuts.

A January *New York Times*-CBS News poll showed 58 percent opting to help Social Security and Medicare, 20 percent favoring

debt reduction, and 14 percent preferring tax cuts.

Whether taxes are cut, more spending is allowed, or the money is used to pay down the debt, fix Social Security, or both, the nation's long-term fiscal problems are far from solved, most parties in the debate agree.

But they can be solved much more easily with a healthy economy. And that means that economic growth, job creation, low inflation, productivity gains, and export expansion will have to continue.

It is important, the Chamber's Josten emphasizes, that any decision made or actions taken not slow the nation's entrepreneurial engine. "It was the expanding economy," he says, "that led to achieving the first balanced budget in 30 years, setting the stage for the surplus debate." **NB**



To order a reprint of  
this story, see Page 73.  
For a fax copy, see Page 64.

## The National Debt In Brief

Often, the national debt is mistakenly thought to be another term for the federal budget deficit. Here are questions and answers to help you understand the debt.

### How was the national debt acquired?

It is an accumulation of money borrowed to cover deficits, which occur in years when federal revenues fall below spending.

### When did the U.S. Treasury first go into the red?

The national debt is as old as the nation. Until relatively recently, wars were principally responsible for major increases in the debt. It stood at \$75 million in 1791, the result of the new federal government's borrowing to repay Revolutionary War costs.

The debt reached \$1 billion for the first time in 1863, reflecting Civil War outlays, which eventually pushed the total to \$2.8 billion in 1866; \$27 billion in 1919 for World War I; and \$270 billion in 1946 following World War II.

It grew relatively slowly over the first post-World War II generation but began soaring in 1981 as spending for social programs and defense skyrocketed.

### Why does the debt concern so many people?

Many business people and economists say heavy government borrowing absorbs capital that would be better invested in the private economy. They also argue that it is unfair for the current generation to run up massive obligations that future generations will have to meet on top of their own commitments.

Another perspective holds that many projects financed by government borrowing—such as defense and highways—are economically sound uses of investment capital.

### To whom does the U.S. government owe this debt?

The gross national debt has two components—debt held by the public, now \$3.8 trillion, and debt held by government accounts, now \$1.7 trillion.

### What is "the public" in this sense?

The debt held by the public consists of marketable securities sold by the Treasury Department, primarily to individuals, banks, corporations, investment funds, and insurance companies in this country.

Foreign central banks are also major buyers.

### How can the government owe money to "government accounts"?

This part of the debt represents obligations of one government agency, the Treasury Department, to various federal trust funds that collect money for purposes such as Social Security payments, highway construction, and federal employees' pensions. Under current law, those trust funds must use surpluses to buy interest-bearing, nonmarketable securities from the Treasury Department. The money is then used for general government purposes.

### How much is the interest on all this?

Gross interest on the national debt will be about \$366 billion this year, when the government's interest payments to Social Security and other government accounts are considered, says the Treasury Department. The more common figure is the interest due to nongovernment holders of debt—both foreign and domestic; it will be about \$244 billion this year.

### Why has the national debt increased 500 percent just since 1980?

Republicans blame it on spending by Democratic-controlled Congresses for social programs. Democrats say that Reagan-era policies of cutting taxes and raising military spending are responsible.

—Robert T. Gray



# Congratulations Of The Blue Chip



THE  
BLUE CHIP  
ENTERPRISE  
AWARD

Share your success story!



# To 1998 Honorees Enterprise Initiative®

This year's proud honorees are listed on the following pages. Be sure to check for the Blue Chip Enterprises in your state. Next year your company could be on the list! It's easy to apply. Any for-profit business that has operated continuously for at least three years and employs 5 to 400 persons is eligible.

The Blue Chip Enterprise Initiative recognizes businesses that have overcome adversities, seized opportunities, and succeeded. Since 1990, nearly 1,600 businesses have been honored.

Four national honorees are selected each year. They will be featured in the April issue of Nation's Business and recognized at ceremonies in Washington, D.C.

All honorees are profiled in "Insights and Inspiration: How Businesses Succeed," a softcover book published by Nation's Business. Selected stories are featured on a videotape series broadcast by First Business, a nationally syndicated weekday television program.

The Blue Chip Enterprise Initiative is sponsored by MassMutual, the U.S. Chamber of Commerce, Nation's Business, and First Business.

For more information about the program, look for the 1999 Blue Chip application in the June issue of Nation's Business, email an inquiry to [bluechip@nationsbusiness.org](mailto:bluechip@nationsbusiness.org), or call 1-800-FOR-BCEI.

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## ENTERPRISE

# Aligning Ambition With Reality

By Michael Barrier

Ask any business person what most distinguishes the entrepreneurial spirit, and you'll probably get an answer that includes words such as "dream" and "vision" and "drive." Rich Rawlins, president of Rawlins Real Estate in Salem, Ore., singles out persistence. "The only way one can be assured of success," he says, "is to never give in to defeat."

Usually, though, such admirable characteristics aren't enough in themselves. Business people can't simply respond to challenges—they have to understand those challenges and tackle them in the right way.

For example, WEB Products in Kansas City, Kan., pioneered what it calls the first fully adjustable electrostatic furnace filter. It prospered initially—sales rose from

\$50,000 in 1989 to \$1.3 million three years later—only to find its product being squeezed off retailers' shelves by much larger competitors who copied its design and beat its price.

WEB responded with a multipronged marketing drive: improved packaging that lets consumers actually see the product; an intensive media effort to raise consumer awareness of electrostatic filters' advantages over cheaper paper filters; and a network of independent service representatives who keep retailers restocked.

The costs were not low—WEB spent \$120,000 just for the new package design and market studies—but because the money was targeted precisely at WEB's problems, the payoff was large. Annual sales have risen to \$6 million.

Honoring business people who have understood and surmounted such challenges is the idea behind The Blue Chip Enterprise Initiative®, established in 1990. The program is sponsored annually by Massachusetts Mutual Life Insurance Co. (known as MassMutual—The Blue Chip Company), the U.S. Chamber of Commerce, *Nation's Business*, and "First Business," the Chamber's half-hour morning business-news television program sponsored by MassMutual.

To judge from the applications submitted by the 168 companies chosen as Blue Chip Enterprises for 1998, the challenges confronting a small business can come in almost any shape. A few examples:

**Natural and man-made disasters:** Platinum Capital Group, a mortgage

## 1998 STATE BLUE CHIP HONOREES

### ARIZONA

The Cap Co. (hat retailer), Tempe; D&D Electronics Service Center (low-voltage contracting), Fountain Hills; Fastsigns (sign and graphics-services franchisee), Phoenix; PFT of America Inc. (electromechanical equipment manufacturing), Phoenix; Southwest Inn at Sedona (hotel); Turken Industrial Properties Inc. (commercial real estate), Phoenix.

### ARKANSAS

Candy Bouquet International, Inc. (franchisor), Little Rock.

### CALIFORNIA

American Hardwood Co. (window blind and shutter components), Gardena; Associated Childcare Educational Services, Inc., Sacramento; Cloud 9 Shuttle, Inc. (airport transportation), San Diego; Cookies By Design (custom cookie bouquets), San Diego; DawnSignPress (sign-language textbooks and videos), San Diego; Peacock Tool & Engineering Inc. (aerospace machine shop), Spring Valley; Platinum Capital Group (mortgage brokerage), Irvine.

### COLORADO

Bourbon Street Pizzabar & Grill,

Greenwood Village; National Network Services, Inc. (data, voice, and video network installation), Denver; Pacific Western Technologies, Ltd. (environmental engineering and consulting), Lakewood; Pumpkin Masters (carving kits), Denver; Sutton Homes Franchising Corp. (care for Alzheimer's disease patients), Englewood.

### CONNECTICUT

ISOCAL Laboratories, Inc. (calibration), East Hartford; Lake Compounce Theme Park, Bristol; Patrissi Landscaping, Inc., Bloomfield.

### DELAWARE

Brian's, Inc. (data storage and commercial moving), New Castle.

### DISTRICT OF COLUMBIA

The Cason Co., Inc. (general contracting).

### FLORIDA

Easy Picker Golf Products, Inc. (manufacturing), Lehigh; The HomeTeam Inspection Service (home inspections), Tampa; Midwest Contract Furnishings, Inc. (interior design), Maitland; RJ Wire & Cable, Inc. (manufacturing), Fort Myers; Sperry & Associates Inc. (general contracting), Tallahassee; Ultimate

Products, Inc. (hats, caps, and accessories), Tampa.

### GEORGIA

Growing Room Child Development Centers, Columbus; Kids II, Inc. (juvenile products), Alpharetta; Window Creations, Fabrics, Etc., Inc. (window treatments and fabrics), Cumming.

### HAWAII

Advanced Micro-Image Systems Hawaii, Inc. (information management), Honolulu; Quality Graphic Service, Inc. (graphics and printing), Honolulu.

### ILLINOIS

Arrow Messenger Service, Inc. (messenger, courier, and facility-management services), Chicago; M.H. Equipment Corp. (sales and service), Peoria; The Retreat Restaurant, Chicago; Ringland-Johnson, Inc. (general contracting), Rockford.

### INDIANA

Acme Masking Co., Inc. (production of aircraft engine parts), Avon; Control Panel Corp. (electrical control systems), Yorktown; CourterCo, Inc. (hardware and laminate distribution), Indianapolis; The Dodson Group Inc. (group purchasing for office services), Indianapolis;



broker in Irvine, Calif., had to cope with a combination catastrophe: On a blistering hot day, an electrical surge burned out its computer system and its telephones—the very heart of the business.

**Unreliable vendors:** When Candleworks, an Iowa City, Iowa, manufacturer of private-label candles, was making thousands of candles for a big customer, it discovered that one of its vendors had sold it 10,000 wicks that were smaller than they were supposed to be. That meant that Candleworks had sent its customer 10,000 candles that would self-extinguish.

**Confining gender roles:** Johannah Hoffman was, as she says, in her “golden years” when her husband died and she found herself in charge of a successful business, Union Iron & Metal Co. of Houston, “in an industry historically and primarily run by men.” Almost immediately, she lost one-third of her employees and more than half of her customers, and her vendors began limiting credit.

There isn't room here to explain how these companies sized up the challenges they were facing and responded appropriately. Neither is there room to go into all the other kinds of challenges—ranging

from fickle customers to rapid technological change to government intervention to personal health problems—that other 1998 Blue Chip companies faced, sometimes in daunting combinations. The full stories of all the Blue Chip companies will be told in this year's edition of *Insights and Inspiration: How Businesses Succeed*. Information on how to order that book will appear in *Nation's Business* when the book is published in the summer.

*Insights and Inspiration* is published annually to fulfill part of The Blue Chip Enterprise Initiative's mission: to help small businesses learn from one another's

experiences. In addition, profiles of high-scoring Blue Chip companies will air each Thursday on “First Business.” Those profiles will be gathered into videocassette libraries that will be widely available to small businesses through state and local chambers of commerce.

All designees will receive trophies at regional award ceremonies. The four highest-rated companies were honored in February at the U.S. Chamber's annual meeting in Washington, D.C. Those four companies will be the subject of a feature article in the April issue of *Nation's Business*, and their stories will be broadcast by “First Business” the week of April 7.

Applications for the 1998 program, submitted by businesses across the country last fall, were scored by a panel of judges from Arthur Andersen LLP, the international accounting and consulting firm.

For information about the program or to place your name on a list to receive a 1999 application, send an e-mail to [bluechip@nationsbusiness.org](mailto:bluechip@nationsbusiness.org) or call 1-800-FOR-BCEI (1-800-367-2234).

Listed below are the 1998 Blue Chip designees, by state.



## THE BLUE CHIP ENTERPRISE AWARD

Fanning/Howey Associates, Inc. (architectural and engineering services), Indianapolis; Gradex, Inc. (excavating contractor), Indianapolis; Playing Mantis (toys and model kits), South Bend.

### IOWA

Candleworks (custom-made candles), Iowa City; Speck Enterprises (parking-area maintenance), Des Moines.

### KANSAS

IES Midwest, Inc. (Internet applications development and training), Overland Park; Laser Cycle, Inc. (remanufactured toner and inkjet cartridges), Lenexa; Network Innovations Inc. (computer networks and consulting), Olathe; WEB Products Inc. (furnace and air-conditioning filters), Kansas City.

### KENTUCKY

Bray Used Parts, Inc. (heavy-duty trucks and truck parts), Wilder; Image In-Sights, Inc. (breast and hair prosthetics), Covington; Jolly Plumbing, Wilder; The Malcolm Bryant Corp. (real-estate development and property management), Owensboro; Whaler's Catch Restaurant, Paducah.

### MARYLAND

Clark Internet Services (ClarkNet) (Internet access and Web-page design), Columbia; Global Management Systems Inc. (systems integration and network design), Bethesda; Richard M. Tunis, Inc. (kitchens and baths), Chevy Chase; SMAC Data Systems (computer systems), Gaithersburg.

### MASSACHUSETTS

Cape Cod Potato Chips, Hyannis; Chace Leather Products (leather and fabric cases), Fall River; Global Recycling Technologies, Inc. (recycling of mercury lamps, batteries, and electronics), Stoughton; Hanson Printing Co., Inc., Brockton; ScrubaDub Auto Wash Centers Inc., Natick.

### MICHIGAN

Bay Cast Inc. (steel casting), Bay City; Quality Mailing & Fulfillment Services, Inc. (direct mail), Detroit; Two Men and a Truck International, Inc. (moving franchisee), Lansing; Wolverine Fire Protection Co., Mount Morris; Wright-K Technology, Inc. (industrial machinery and engineering services), Saginaw.

### MINNESOTA

Allanson Business Products, Inc. (computers), Bloomington; Cortec Corp. (corrosion-control systems), St. Paul; J.D. Donovan, Inc. (trucking), Rockville; RTC, Inc. (injection molding and toolmaking), West St. Paul.

### MISSISSIPPI

Brick-Oven Cafe, Ridgeland; Cirlot Agency Inc. (marketing, advertising, and public relations), Ridgeland; Gail Pittman



## ENTERPRISE

Studios (hand-painted flatware and home accessories), Ridgeland; SIMOD Corp. (telecommunications equipment and services), Richland.

### MISSOURI

Addison Biological Laboratory, Inc. (veterinary medications), Fayette; En-Sync Group Inc. (electrical equipment manufacturer's representative), Manchester; Express Personnel Services, Columbia.

### MONTANA

Missoula Textile Services (linen and uniform rentals, dry cleaning, and laundry), Missoula.

### NEBRASKA

The MAIDS International, Inc. (cleaning-services franchising), Omaha; Medical Center Pharmacy, Inc. (pharmacy and medical equipment), Scottsbluff; Muehling Homes, Inc. (construction), Lincoln; Power Pick/Advanced Technical Services (productivity consulting), Lincoln.

### NEVADA

Carpenter's Music World (instrument sales and rentals), Reno; Cheese Board & Wine Seller, Inc. (restaurant and catering), Reno; Kruse & Parker Advertising, Marketing and Public Relations, Reno; LeFiell Co. (meat-industry machinery), Reno; Viva Mercado's Mexican Restaurant and Cantina, Las Vegas.

### NEW HAMPSHIRE

Carpet Cooperative of America Inc. (retail), Manchester; Meredith Brick Manor (health care for the elderly), Meredith.

### NEW JERSEY

Eagle Management Group, Inc. (trade-show personnel), Paulsboro; ECI Conference Call Services, Wayne; Roberts Pharmaceutical Corp., Inc. (manufacturing), Eatontown; Video Services Corp. (technical and creative services), Northvale.

### NEW MEXICO

POD Associates, Inc. (computer services), Albuquerque.

### NEW YORK

Just-A-Buck Licensing, Inc. (retail store franchising), Goshen; Lifestar Response Corp. (medical transportation services), Holtville; Liquipharm, Inc. (pharmaceuticals), Pomona; M&V Provision Co., Inc. (wholesale food distribution), Brooklyn; Quick International Courier, New York City; R.B. Woodcraft, Inc. (architectural

millwork), Syracuse; Sawyer's Exterminating, Rochester.

### NORTH CAROLINA

Laurey's Catering, Inc. (catering and retail gourmet food), Asheville; Play USA Inc. (playground equipment), Matthews.

### NORTH DAKOTA

Horn Plastics Inc. (fabrication and distribution), Fargo.

### OHIO

Johnstone, Downey, Klein, Inc. (export credit insurance and trade-finance brokerage), Columbus; Multi Color Corp. (labels), Cincinnati; PhyMet, Inc. (solid lubricants), Springboro; Three-C Body Shop, Inc., Columbus.

### OKLAHOMA

CD Warehouse, Inc. (retail), Oklahoma City; Fleming Ford (dealer), Newcastle; Impressions on Hold International (telephone advertising), Tulsa; Narrative Television Network (entertainment services for the visually impaired), Tulsa.

### OREGON

Rawlins Real Estate, Salem.

### PENNSYLVANIA

American Innovations, Inc. (products for the physically impaired), Dublin; Fastsigns (sign and graphics-services franchisee), Pittsburgh; FNX Limited (financial-management software), Wayne; Harmelin & Associates (advertisement purchasing), Bala Cynwyd; Keenan Auto Body, Clifton Heights; Recycled Rubber Technologies, Somerset; Timothy Haahs & Associates, Inc. (engineering and architectural design), Blue Bell; XRT, Inc. (cash-management systems), Wayne.

### PUERTO RICO

Alpha Tech, Inc. (validation engineering services), Manati.

### RHODE ISLAND

Hi-Lo Supermarket, Bristol; The Loflin Group, Inc. (executive recruitment), East Providence; The Quill Co. (pen manufacturing and marketing), Cranston; Select Financial Mortgage Corp., Warren.

### SOUTH CAROLINA

Dee's Pita Plus Inc. (restaurant), Charleston; Fastsigns (sign and graphics-services franchisee), Greenville; FermPro Manufacturing, LP (fermentation products), Kingstree; K-Con, Inc. (construction), Charleston; Lee Builders, Inc. (commercial and restoration construction), Johns Island; W&W Truck and Tractor, Inc. (sales and service), Moncks Corner.

### SOUTH DAKOTA

Mastel Precision (surgical instruments), Rapid City.

### TENNESSEE

Charley's Steakery, Knoxville; Coulter & Justus, P.C. (accounting), Knoxville; Earth to Old City (photo stock, gallery, and gift shop), Knoxville; Environmental Biotech of Northeast Tennessee (environmental remediation), Jonesborough; Fabtron (horse-equipment manufacturing), Maryville; Little Planet Publishing (educational software), Nashville.

### TEXAS

Compound Manufacturing Distribution, Inc. (reprocessed engineering plastics), Houston; Gallery Furniture, Houston; Goetting & Associates, Inc. (mechanical, electrical, and plumbing consulting engineering), San Antonio; MGW Group, Inc. (cookie outlet franchising), Plano; Morris Architects, Inc., Houston; Shupe Personnel, Inc., Houston; The Tenagra Corp. (online advertising, public relations, and Web-site design), Houston; Union Iron & Metal Co., Inc., Houston.

### UTAH

Foot Log (foot-massager manufacturing), Salt Lake City; Gramoll Construction Co., North Salt Lake; International Armoring Corp. (manufacturer of armored passenger cars), Ogden; O'Curran, Inc. (telemarketing sales), Salt Lake City; SORENCO Laboratories (manufacturer of personal-care products), Salt Lake City; Zeveex, Inc. (medical technology), Salt Lake City.

### VERMONT

Vermont Industries Wrought Iron (home accessories), Cuttingsville.

### VIRGINIA

Blue Crab Bay Co., Inc. (specialty foods and gifts), Onancock; L&M Production Design Group, Inc. (meetings and special events), Alexandria; Rogar International Corp. (kitchen accessories), Richmond; Soilex Corp. (waste disposal), Virginia Beach.


### WASHINGTON

Da Vinci Gourmet, Ltd. (specialty foods), Seattle.

### WISCONSIN

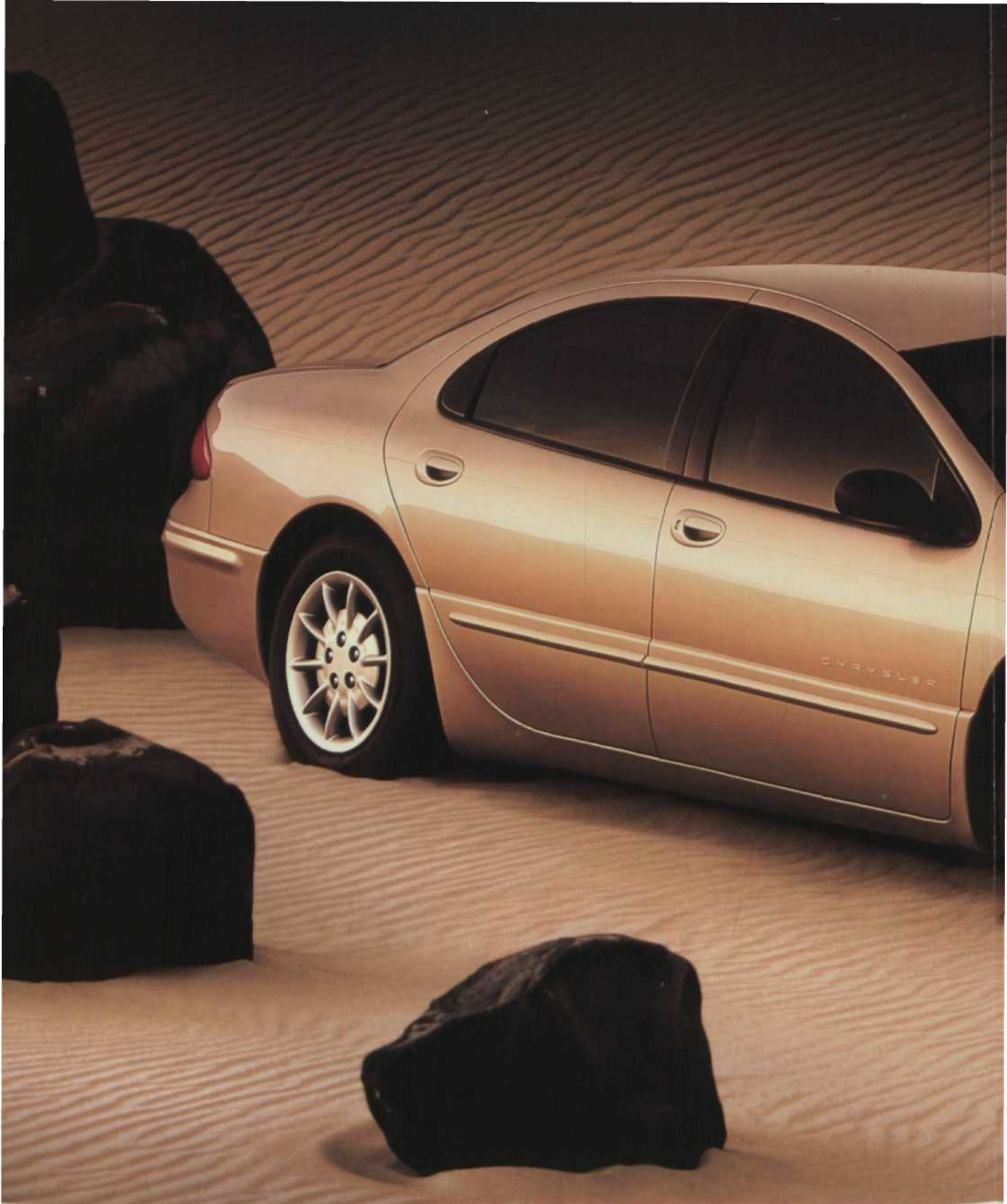
Amerivoice Telecommunications, Inc. (voice-mail services), Milwaukee; Bonded Fibers Midwest Inc. (nonwoven textiles), Delavan; CC of Madison Inc. (hair salons), Madison; Morello Franchise Development Co., Inc. (restaurant franchising), Beloit.



The image depicts a dark, textured background representing a road surface. A vertical dashed line, composed of several short, light-colored segments, runs down the center of the frame. In the middle of this line, there is a rectangular area with a different, more granular texture, suggesting a patch of asphalt or a specific road material. The text is positioned to the right of the dashed line, above the textured rectangle.

We started with a clean  
sheet of pavement.





**The All New Chrysler Concorde,  
well-equipped from \$21,855.\***

There are a lot of words that can be used to describe the all-new Chrysler Concorde. "Pedestrian" is definitely

not one of them. Indeed, the new Concorde stands as an exhilarating testament of our engineers' relentless commitment to inspired engineering and design. To begin with, Concorde's new generation, lighter-weight,



Once again, we've  
successfully avoided  
the pedestrian.

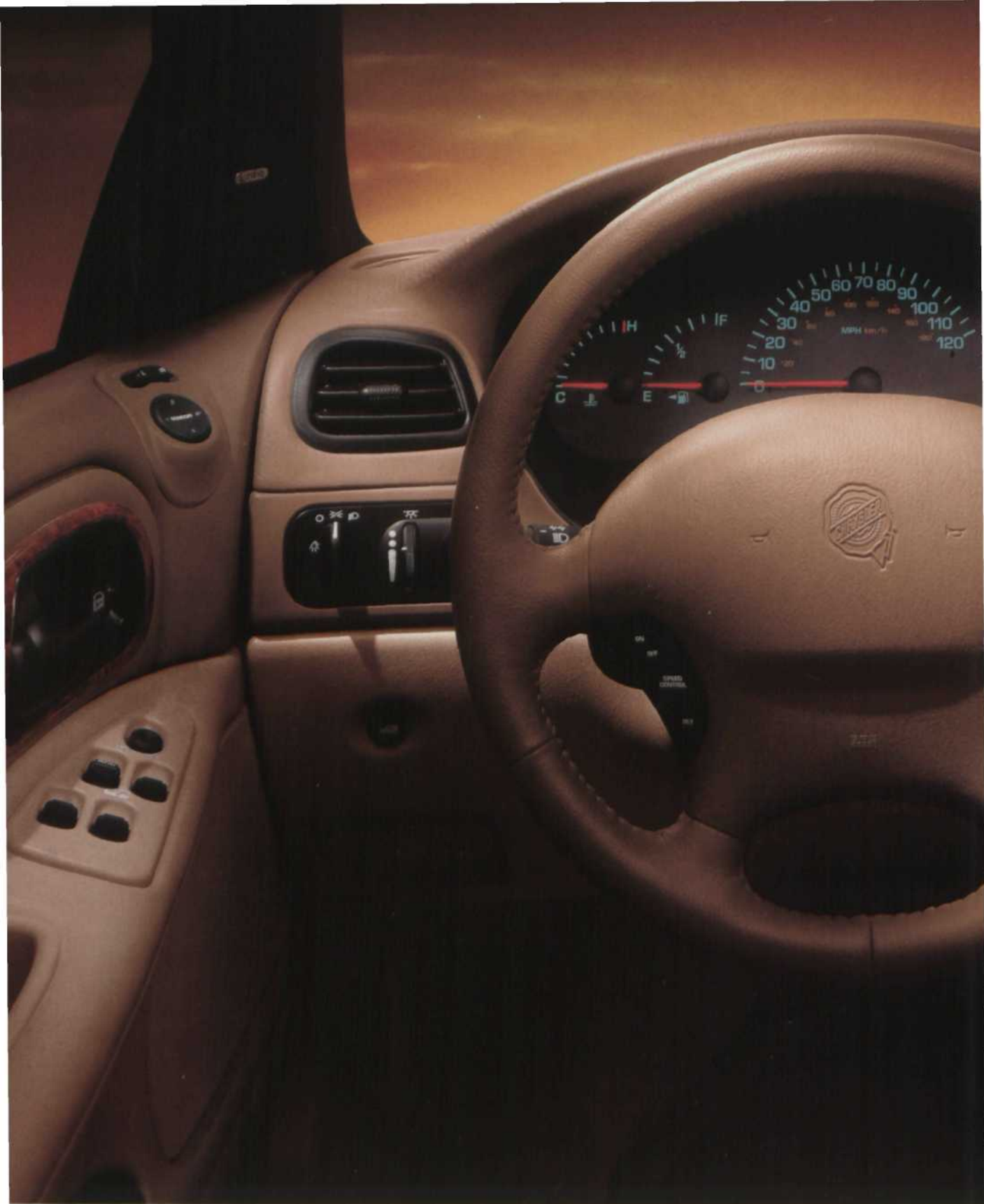


\*Base MSRP. Concorde LX includes destination, excludes tax. Wheels shown extra. \*\*Comparison of 1997 MY 3.3 liter engine to 1996 MY 2.7 liter engine (LX model). 1996 MY EPA est. mpg. (LX model) 21 city, 30 hwy.

all-aluminum engine not only provides nearly 25 percent more horsepower but it also manages to be 10 percent more fuel efficient.\* And its four-wheel independent suspension has been thoroughly refined to provide even

more precise handling. What's more, combine this sort of advanced technology with Concorde's unique design and notable road presence, and you have an automobile that's as far from pedestrian as an automobile can be.





If your eyes only knew what they were missing. Of course, the road can't go on forever (an equally regrettable fact, perhaps). But, although you may stop, the thrill need not. Simply look around you. The first thing you'll notice in the

new Concorde LXi is room. You'll also notice how lavishly we appointed that room. Rich leather trim starts at your fingertips and continues down to the exceptionally comfortable seat of your pants. Instruments and controls are



Its exhilarating  
performance  
will have your  
eyes glued  
to the road.

Pity.

LXi interior

strategically placed to be where you want when you want them. Front seats are eight-way power adjustable for individualized comfort. A 240-watt sound system with nine speakers is designed to envelop you. There's even a tem-

perature control system that automatically keeps the cabin at your preferred comfort level. To learn more, call 1.800.CHRYSLER or visit [www.chryslercars.com](http://www.chryslercars.com). To be sure, there's much more we wouldn't want to overlook.











The All New Chrysler Concorde

Built on the belief that, while

all cars appeal to our practical side,

the great ones appeal

to a more passionate side.

C H R Y S L E R



ENGINEERED TO BE GREAT CARS



# Small Business Financial Adviser

*Parents as lenders; group insurance for employees; tracking 401(k) funds with a mouse; prospects in international investing.*

## Rewards And Risks In Lending To Your Child

By Gloria Gibbs Marullo

In 1987, when Tom Krueger was 21, he borrowed \$30,000 from his father to start Hinges & Handles, an Osceola, Ind., business dealing in home-restoration hardware. Having made the loan,

builders of upscale houses. The doorknobs were gone in a month, and the business has been profitable ever since.

As the business grew and prospered, however, Krueger never repaid the loan. Instead, he and his father incorporated the business in 1993, and the \$30,000 be-

children "only if you're willing to sue" to collect a bad debt, says Stanley Person, a CPA and senior partner with Person & Co. in New York City.

Under Internal Revenue Service rules, you can't deduct any part of a bad loan from your taxes unless you first try to collect the debt, through legal action if necessary. "You have to treat a business loan to your child like a bank loan and be prepared to act like a bank if the loan goes bad," says Person.

Acting like a bank also means you should have a written loan document. If the business fails and your loan was transacted with only a handshake, you will have trouble convincing the IRS that you made a bona fide loan and that the bad debt is deductible. To qualify for a bad-debt deduction, you must insist on the following documentation:

- A note or other evidence of indebtedness and a written loan agreement.
- A fixed repayment schedule.
- Security or collateral.
- Accurate records of repayment.
- Proof that the business was solvent at the time of the loan.
- A realistic business plan indicating that the loan will be repaid on schedule.

**Unlike a bank, few parents can write off the loss as a business bad debt.**

If a bank makes a loan to a start-up business and the loan goes bad, the bank first must take legal action to collect the debt. If that doesn't work, the bank can write off the entire loss as a business bad debt in the year the loan becomes worthless.

In rare instances, parents can do the same—if they can convince the IRS that they are in the business of lending money.

At least one taxpayer managed to prove just that in federal Tax Court. In 1987, the taxpayer lent \$36,000 to his daughter to start a skating rink. Within a year,



PHOTO: SHAWN SCOTT

**A father-to-son loan to start a home-restoration-hardware business turned out to be a good move for Tom, right, and Chuck Krueger, but such arrangements can cause tax headaches for parents.**

Krueger's father wanted to know Krueger's every business move.

"It was worse than being in high school," says Krueger. "He wanted to know exactly where I was going and what I was going to do."

The young entrepreneur started with a good idea—and good advice. When his first \$6,000 inventory of doorknobs didn't sell, he asked the South Bend (Ind.) Small Business Development Center and the Service Corps of Retired Executives (SCORE) for help with marketing.

SCORE volunteers advised him to get a toll-free telephone number and place a small display ad in a magazine for

came his father's contribution to equity as a 50 percent shareholder. Today, the firm has four full-time employees, and 1997 sales exceeded \$700,000.

The Kruegers are a parent-child business-loan success story. But not all such loans result in thriving businesses. Some loans go bad, creating tax headaches for unsuspecting parents. It's important to be aware of the tax consequences before deciding whether to make a business loan to one of your children. Here are some key points to consider:

**Be prepared to sue if the loan sours.**

Make a business loan to your



## SMALL BUSINESS FINANCIAL ADVISER

however, it became apparent that the rink would never be profitable. The father helped his daughter file for bankruptcy protection and took a business bad-debt deduction. The IRS challenged the deduction, saying the taxpayer was not in the business of making loans.

The taxpayer had evidence, however, that he frequently lent money to individuals and that seven of eight loans made in the previous three years had been repaid. Because the daughter had filed for bankruptcy, the court said the father did not have to sue her to collect the loan because it was clear the daughter had no means to repay the money.

For most parents, however, the most practical tax approach is to claim a non-business bad debt. "But to do this, you first have to sue your child to collect," says Steele Stenger, a CPA with Stenger Bies & Co. in Pittsburgh. "If unsuccessful, the parents can write the loan off as a short-term capital loss."

To take this write-off, the parents would subtract the loan loss from the total of their long- and short-term capital gains for the year. If the loan loss exceeded capital gains, the parents could then deduct \$3,000 of the nonbusiness bad debt that year and carry over the rest to deduct in \$3,000 increments in subsequent years.

### Forget the tax write-off and call the bad loan a gift.

For parents who don't want to add bad blood to bad debts by suing their children, the IRS has a third option: Treat the uncollectable loan as a gift.

The problem with this, says Person, is that you can create a whole new set of tax complications with estate planning if the parents' generosity exceeds the maximum allowable annual tax-free gift.

IRS rules allow a taxpayer to give up to \$10,000 each year (\$20,000 for two parents) to as many individuals as they want without the taxpayer or the recipients owing tax. (Beginning in 1999, the \$10,000 will be indexed for inflation and increased in \$1,000 increments.)

For example, if the bad loan is no more than \$40,000 and the child is married, the parents could qualify for the annual gift

**"Twenty years ago I borrowed \$10,000 from my dad to get started, and I repaid every dime."**

**—Joann Amos,  
Reflections  
Photography**

exclusion (two parents giving \$20,000 to their child and another \$20,000 to the spouse) in the year the loan becomes worthless. But gifting more than \$10,000 per person per year during a parent's lifetime could later increase the taxes due on the parent's estate.

(Gift and estate taxes are combined through the "unified credit." For example, if a taxpayer exceeds the \$10,000 per person annual gift exclusion by \$20,000 a year for five years, or \$100,000, the donor's \$600,000 exemption for estate-tax purposes is reduced to \$500,000. The unified credit is gradually being increased to exempt \$1 million by 2006.)

### The IRS may hold parents personally responsible for a child's bad debts.

Yet another tax trap for unsuspecting parents can emerge if a parent supplies the cash to form a corporation and the child runs the business.

In one instance, Stenger had a client who contributed cash to start a son's business. In return, the son made the father an officer in the corporation, with check-writing authority. The father's involvement in the day-to-day operation of the business was minimal. Nonetheless, when the son didn't remit \$10,000 in company payroll taxes, the IRS forced the father to pay the taxes from his personal bank account.

### Divorce and poorly documented business loans can create significant problems.

You want to be extra careful about lending money to children who, though they might have good business skills, have bad marriages. "This isn't as much a tax issue as a red flag for the need for legal agreements and loan documentation," says Person. "I've had parents loan money to a married son who then gets a divorce. Without proper documentation of the amount of the loan and who is responsible for repaying it on what terms, the ex-wife can either claim the money was a gift or walk away from any responsibility to repay the loan."

In a worst-case scenario, when the couple divides the marital assets, the former spouse could end up with a major or con-

trolling interest in a successful business that has been bankrolled by her former in-laws.

In addition to formal documentation, Person recommends that parents use common sense before lending money to start their children in business.

"Don't make a loan to your kid," says Person, "if you know there's a problem with alcohol or drugs. Don't give money to a child to open a garage if he doesn't know how to change oil."

Hardware entrepreneur Krueger was still in college when he started Hinges & Handles, but he had worked in his father's hardware store since junior high school.

**D**espite the potential tax and estate-planning pitfalls, most parent-to-child business loans don't go bad, says Person.

Joann Amos, president of Reflections Photography in Washington, D.C., got her start photographing fraternity and sorority parties while attending the University of Kentucky. Amos specializes in event photography and was the official photographer for the 1996 Republican National Convention in San Diego.

"Twenty years ago I borrowed \$10,000 from my dad to get started," says Amos, "and I repaid every dime." Although they never had a formal loan document, they agreed to specific terms and interest.

Amos borrowed from her father several times as her business expanded. "My toughest banking problem," says Amos, "was finally convincing the bank to loan me money without my dad's signature."

Eleven years ago in Oklahoma City, Marcia Hays started a home-based public-relations firm—with no computer and no capital. "I went to all the banks but could not get a loan," she says. "There's not a lot of collateral in a PR business."

Within three months, she had to move to commercial office space to accommodate her growing staff, but she still couldn't get a bank loan. Hays' father came through with a \$20,000 loan to finance the early growth of her business. Now she is president of the largest public-relations firm in Oklahoma, Hays & Associates Inc.

Did Hays have a formal loan agreement? "My dad sat down and typed out a contract with the amount of the loan, market interest rate, and payback schedule," she says.

Was she offended by the formal terms? Not at all. "My dad made his money in real estate," says Hays. "He won't loan anyone \$10 without a piece of paper." ■

*Gloria Gibbs Marullo is a CPA and business writer in South Bend, Ind.*





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## SMALL BUSINESS FINANCIAL ADVISER

## RETIREMENT PLANS

## Point And Click To Move 401(k) Funds

In the not-too-distant future, the Internet could rival printed statements and toll-free phone calls as the primary way for 401(k) account holders to track their investments.

Some providers of 401(k) plans are making big investments in technology so that plan participants can use the Internet for account monitoring and transactions.

Boston-based Fidelity Investments reports that about 2,000 companies offer their employees Internet access to manage their 401(k) accounts through Fidelity's NetBenefits computer program on the World Wide Web ([www.fidelity.com](http://www.fidelity.com)). Fidelity is the nation's largest provider of mutual funds and 401(k) plans.

For small businesses, the technology is seen as the key factor in making plan administration more cost-efficient. Gains are being achieved primarily by minimizing the provider's need for employees because 401(k) participants can use automated programs to manage their own accounts.

"In a short period of time, the Internet has become a very real service channel for retirement savers," says Robert Reynolds, president of Fidelity's Institutional Retirement Group. The technology "will revolutionize how we deliver services," he says.

Many other mutual-fund companies already offer, or soon will offer, Internet access to their investment- and retirement-fund accounts.

Charles Schwab & Co. of San Francisco lets its retirement-plan customers monitor and reallocate their 401(k) investments by computer through the company's

SchwabPlan site on the Internet ([www.schwabplan.com](http://www.schwabplan.com)).

Vanguard ([www.vanguard.com](http://www.vanguard.com)), the second-largest provider of mutual funds in the country, is planning an April launch of an online service that will allow 401(k) plans' participants to manage their retirement-plan investments by computer.

"Online services will make it even easier to provide world-class service to



smaller-size companies," says F. William McNabb III, managing director of the Vanguard Institutional Investor Group in Malvern, Pa.

McNabb forecasts that eventually all players in a 401(k) plan—the employer, the workers, and the financial provider—will use the Internet to manage, participate in, or operate the plan.

An estimated 280,000 companies in the United States sponsor 401(k) plans for 27 million workers, and total 401(k) assets exceed \$1 trillion, according to Access Research Inc. of Windsor, Conn., which tracks pension data. At the beginning of 1998, however, less than 10 percent of participants in 401(k) plans used the Internet to monitor their accounts, says Gerry O'Connor, director of research at Access.

Whether a company uses the Internet can be influenced more by the nature of the company's business than by its size, says David Wray, president of the Chicago-based Profit Sharing/401(k) Council of America. Many small service firms may be far more aggressive than big manufacturing companies in using the Internet because the service firms' line of work is more likely to use the technology.

"Internet access is not a large-company/small-company issue," says Wray. "Rather, it's the type of business [the companies] do."

—Stephen Blakely

## BENEFITS

## Group Insurance For Small Firms

Insurance companies are offering small firms a benefit previously available only to large companies: group automobile and property insurance paid by employees through payroll deductions.

Until recently, insurers limited such group coverage to large companies, says David White, president of DM White Corp., an insurance broker in Phoenix. Within the past year, however, many insurers have entered the small-business market.

"Some insurance companies will go down to as few as 25 employees" with a group plan, says White, a specialist in employee-benefits insurance since 1972. Coverage may include autos, homes, boats, and even jewelry.

Although employer-paid benefits continue to rise in cost, companies pay nothing to add group auto and property insurance as a benefit option. Employees sign

up voluntarily for the program and pay the premiums by payroll deduction. As an incentive, the group plans often offer premium discounts of up to 20 percent.

How much work is involved for the employer? Very little, says White. Because premiums are paid via payroll deduction, some coordination with the payroll department is necessary, he says, but there is nowhere near the amount of work that accompanies employer-paid health insurance.

White also notes that offering group auto and property coverage puts extra pressure on the insurer to provide top-quality service. "If the insurance company doesn't do a good job on a claim, the employer can terminate the whole program, and the insurance company would lose the entire account" and all the employees who signed



up, says White. "So they tend to do a better job than when someone has bought the coverage one-on-one."

Group auto and property coverage for small businesses is becoming so popular that many insurance companies are setting up toll-free numbers for customers to call with questions, says Eric Eaton, account executive for Metropolitan Property and Casualty in Denver. The firm insures small businesses with property and automobile coverage needs.

So if you're thinking of enlarging the menu of benefits you offer to employees,

ask your insurance agent about auto and property coverage through payroll deduction.

—Cynthia Scanlon

The author is a free-lance writer in Tempe, Ariz.



INVESTING

# Don't Give Up On International Stocks

By Randy Myers

For much of this decade, experts have told us we can pump up our investment returns with international stocks.

Many of us listened, pouring money into exotic locales from Milan to Malaysia. Assets in international mutual funds grew to \$210.1 billion by the end of November 1997, up from \$9.9 billion at the start of 1990, according to the Investment Company Institute, a fund trade group based in Washington, D.C.

But late last year and early this year, Southeast Asian financial markets began a meltdown as the region's economies were overcome by excessive borrowing. Not surprisingly, many investors began to question their faith in international investing.

The average international equity fund fell 7.7 percent in the fourth quarter of 1997, while the average Pacific-region fund, excluding Japan, fell a wrenching 28.6 percent. Faced with numbers like that, it takes enormous confidence to send money overseas now, especially when the U.S. economy remains a model of productivity.

Nonetheless, it probably doesn't make sense to give up on overseas investing. It is when events look most bleak, after all, that bargains are likely to be found.

In the mid-1980s, many pundits were convinced that Japan was on a sure route to world economic leadership while the United States, hamstrung by declining Rust Belt industries and a huge federal budget deficit, was on its way down. Events have proved just the opposite, and the United States, not Japan, has enjoyed record-beating stock-market returns during the 1990s.

That said, it would be rash to assume that foreign stocks are a good value just because they're cheap. Japan's Nikkei 225 stock index peaked at just under 39,000 on Dec. 29, 1989, and has spiraled ever lower in the eight years since, finishing last year just over 15,000. Anybody who bought into the Japanese market at 30,000—or 25,000, or 20,000—has been sorely disappointed.

Leila Heckman, managing director of research on global asset allocation for Salomon Smith Barney Inc., a Wall Street investment bank, provides this dispassionate view of international stock mar-

kets, particularly those in Southeast Asia: "Nobody has a perfect crystal ball, but if you look at Asian stocks by traditional measures, such as their price-to-book-value and their price-to-earnings ratios, many do look attractive right now."

"In what we call emerging Asia [China, India, Indonesia, Malaysia, Pakistan, the Philippines, South Korea, Taiwan, and Thailand], stock prices are just 1.7 times their book value, versus an average price-to-book ratio of 2.2 for all world markets. So these stocks are cheaper than the rest of the world."



(In December 1993, the price-to-book ratio for emerging Asia was extraordinarily pricey at 4.4.)

Similarly, stocks in emerging Asia are trading at much lower multiples of their forecasted earnings—about eight or nine times 1998 estimates—than are world markets overall, where the average price-to-earnings ratio is 13. So again, the Asian markets look cheap.

The problem with that analysis, however, is that nobody knows for sure how reliable Wall Street's forecasted earnings numbers will be, Heckman says. "The forecasted earnings for 1998 are still coming down. I think these price-to-earnings ratios are overly optimistic."

Gary Motyl agrees. "A lot of companies in these countries haven't come forward with detailed disclosures" of their condi-

tion, says Motyl, manager of the Templeton Capital Accumulator Fund, which invests in stocks around the globe. "We're working with stale data in many cases."

On the other hand, Motyl says that while a large number of companies will certainly be hurt by the economic turmoil in Southeast Asia, some will just as certainly survive. "We saw this pattern most recently in Mexico," which had its own financial crisis in 1994, Motyl says. "The survivors can

then take real advantage of the stable economic situation [that follows] and prosper."

Many economists believe that Southeast Asia can recover fairly quickly—much faster than Japan—if the countries there adopt the tough economic reforms being pushed by the International Monetary Fund. While Japan's wealth and the size of its economy have allowed it to survive while putting its financial problems on the back burner, some other Asian countries won't have that luxury, the reasoning goes.

The upshot, in Motyl's view, is that investors should continue to hold a portfolio of stocks diversified by region and country. "What we've seen in the last few months illustrates the value of that strategy," he says. "Obviously, if you had a portfolio concentrated in Asian markets, you would have been hurt rather badly. But had you been diversified across other emerging markets, such as Latin America and Eastern Europe, you would not have suffered large double-digit losses."

For investors who do see opportunities in Asia, Heckman suggests a cautious strategy of buying in small quantities over the course of the year rather than plopping down a big wad of cash right now. "The investor hoping to reap a profit in Asia in six months might be disappointed—or pleasantly surprised," Heckman says. "But those with a two-to-three-year time horizon could do very well."

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Randy Myers, formerly a writer and editor for Dow Jones & Co., Inc., is a financial writer in Dover, Pa.



## MANAGING

# Doing The Right Thing

By Michael Barrier

**"W**e play it straight with people," Alan Babb says, and he means it. Babb and his younger brother, Lee, own two companies in Eugene, Ore.—Delta Sand & Gravel, which produces more than a million tons of such material a year, and Delta Construction, which puts in streets and does site preparation. The two companies employ around 120 people.

Several years ago, Delta Construction hired a subcontractor—"a company that did not have good bookkeeping," Alan Babb says—to lay about \$15,000 worth of concrete at one of Delta's projects.

When Babb's people realized that Delta had made more money than it expected to on that job, they checked into it, Babb says, "and we found out that we'd never paid the subcontractor"—because Delta had never received an invoice.

When Delta called to inquire about the bill, Babb says, the subcontractor said that it hadn't done the work, so Delta didn't owe it any money. "What we did," Babb says, "was send them the plans and specifications for their work; we told them the names of some of their people they had on the job; we told them how much they should bill us. So they did, and we paid them about \$15,000."

To some people, doing business that way might sound like passing up found money, but Babb says: "That's just the way we work. If people overbill us, I give them a call; if people underbill us, I give them a call."

It's a way of doing business that Lee Edelstein understands. He's the CEO of TeleManagement Services, Inc., a Fort Lauderdale, Fla., company that conducts customized telemarketing programs for pharmaceutical companies that are trying to reach doctors and druggists.



PHOTO: CARL DAVAZ

**When a subcontractor failed to send an invoice for a job because the firm thought it hadn't done the work, Alan Babb, co-owner of Delta Construction in Eugene, Ore., told the company how much to bill Delta. "That's just the way we work," he says.**

"One of our major clients paid us twice for a \$40,000 project," he recalls. "Somebody screwed up within their organization, and it was highly unlikely they ever would have picked it up." Deciding what to do about that overpayment required "about a three-second conversation," he says, "primarily with myself. Very clearly, that check goes back. I sent it back with an explanation that it had been paid twice in error."

The dollars involved are usually not so large, or the ethical issues so sharply defined, but such situations arise thousands of times every day in small businesses across the country.

For small-business people, the challenge is to find ways to make sure that they—and their employees—always come

*In today's intensely competitive world, ethical business behavior isn't an outmoded luxury—it's a valuable necessity.*

down as squarely on the right side as Babb and Edelstein did.

One harshly practical reason for firms to be concerned with business ethics is this: Under the U.S. Sentencing Commission's guidelines for organizational defendants, an effective ethics program can be highly important in protecting a company from criminal penalties, or at least in softening their impact, if an employee violates federal law.

"I have talked to many prosecutors," says W. Michael Hoffman, executive director of the Center for Business Ethics at Bentley College in Waltham, Mass., "and they have said that if a company can demonstrate that it has done everything it could to prevent a wayward employee from doing what he or she did, they're apt



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## MANAGING

not to even prosecute the company, but to go after the employee."

Encouraging ethical behavior can thus be of great value to companies of many kinds, like those—including Delta Sand & Gravel—that are subject to environmental laws. "We have very few problems with the environmental people," Babb says, "because I believe in covering our tracks before we make them. We do our best to comply when we need to, or before we need to."

**A** commitment to high ethical standards is not just a way to stay out of trouble with the law, though; it's a fundamentally sound way of doing business.

"Good ethics does not always translate into good business," says Michael G. Daigneault, president of the Washington, D.C.-based Ethics Resource Center, which advises many corporations on ethical issues. "But over time, people do understand how you do business; and people do business with other people whom they trust."

One result of Delta's strong reputation, Babb says, is that vendors, knowing how reliable Delta is, are happy to give it the best possible deals. One vendor, for example, "has set us up as a distributor, so they can sell [to] us wholesale. This makes a difference."

And as far as customers are concerned, "people want us to do the work," Babb says. "They keep coming back. Occasionally we get work when we're not low bidder. It pays to play it straight; but that's what people are supposed to do."

TeleManagement Services' Edelstein recalls what happened in the wake of his returning that \$40,000 check: "I learned afterward that the director of marketing for a major part of that company, in a department meeting that he had, used that as an example of the type of people they wanted to do business with. Several million dollars of work with that company later, it clearly was the right decision."

Highly ethical small-business owners can stumble, though, when it comes to encouraging strong business ethics throughout their companies.

"A lot of business owners and leaders take it for granted that everyone around them shares their values," Daigneault says. "I guarantee you that that is not the case. What is necessary is a dialogue in

which the owner or leader of the business shares his or her perspective concerning appropriate conduct, the fundamental principles and standards that the company stands for—and what it won't stand for."

Even when small-business owners communicate their values, they may not realize—unless they encourage discussion of those values—how important their own example is to their employees.

the Ethics Resource Center, the higher in a company the respondents ranked, the higher their opinion of the company's ethical performance.

The most skeptical were employees on the front lines—hourly workers in manufacturing, low-ranking supervisors, and the like. Such employees must deal with ethical issues in very specific terms:

Should they let a defective shipment go out, to the detriment of a customer, or

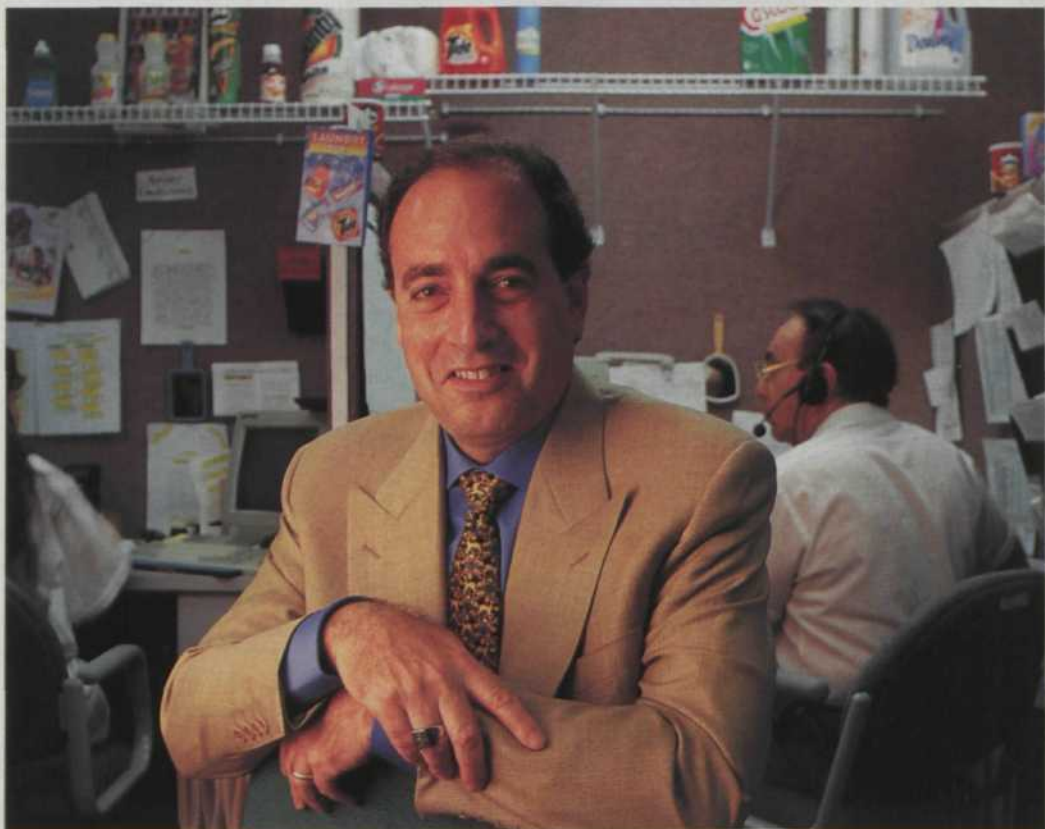


PHOTO: STOM SALYER

**A decision to return an overpayment from a major client resulted in more work down the road for Lee Edelstein's firm, which does telemarketing for pharmaceutical companies.**

When Nan DeMars, a Minneapolis-based consultant who writes a monthly column on office ethics for *The Secretary* magazine, surveyed her readers two years ago, she found them acutely aware of what they saw as their bosses' ethical lapses.

More than half of the 1,500 respondents to the survey reported experiencing verbal or emotional harassment from a boss. More concretely, 17 percent said they had notarized a document without witnessing the signature—exactly the sort of ethical fudging that a boss might regard as insignificant but that could loom large to an employee.

Sometimes, ethics may appear differently, depending on a person's vantage point within a business. In a 1994 survey of employees in businesses of all sizes by

should they call it back when they know the company is under extreme pressure to deliver—and perhaps be criticized for costing the company money?

Should they turn a blind eye when a colleague cheats on an expense report? (More than a quarter of DeMars' respondents said they had observed such falsifications.)

Most employees want to do the right thing; a business owner's task is to make it easier for them to know what's right and to make it easier for them to do it.

A formal ethics program is probably the most promising way to go about that. The Ethics Resource Center's survey found that employees of companies with strong ethics programs were much more likely to think highly of their company's ethical performance, "with the most dramatic difference seen in the more positive opinions



about higher levels of management."

One of the most serious questions is whether a small business's commitment to an ethics program should embrace a written code. Daigneault thinks "it's helpful if it's written down because people take it more seriously." (To learn what's involved in writing a code of ethics, see "Should You Put It In Writing?" on Page 37.)

Setting that question aside, there is broad agreement on some other ingredients of an effective effort to strengthen ethics in a small business. Among them:

**An ethics program should distinguish between the ethical and the merely legal.**

Asking whether something is legal is only the first step in determining whether it is ethical. In fact, making an activity illegal may often be society's way of ratifying its much earlier decision about what is unethical.

"Over the course of time," Daigneault says, "if ethical notions are regarded as important enough, they're promulgated into law."

Seen from that viewpoint, the rise in sexual-harassment cases, for example, may reflect less a rise in such harassment—or even in a general litigiousness—than a higher standard of behavior at most companies. The bad actors stick out more.

As widespread as DeMars' survey indicates that other kinds of harassment are, she says she thinks the situation is changing for the better. "I think [bosses] are realizing that they can't scream and yell at the people who support them," she says.

**A company's leaders must support an ethics program wholeheartedly if they expect it to be taken seriously.**

"It has to be genuine," Lee Edelstein says of a commitment to ethics, "or people see right through it."

Small-business owners "actually have to embody the principles they have enunciated for their employees," Daigneault says. "Employees are very watchful of the behavior of a leader, and they understand contradictions and hypocrisy quite well." But more than being ethical themselves, he says,

"leaders should make it a point to catch people doing good things, and reward them."

They should also pay attention to behavior of the other kind. "One of the worst things that can happen in the culture of a small organization," Daigneault says, "is that someone is obviously doing something that everyone regards as inappropriate, and nothing happens."



PHOTO: ERICHARD HOWARD

**An effective ethics program can help protect a company from criminal penalties if an employee breaks the law, says W. Michael Hoffman, executive director of the Center for Business Ethics at Bentley College in Waltham, Mass.**

Employees need to know not only the rules but also that they're being enforced.

**An ethics program must be a continuous effort, not a one-shot deal.**

"For an ethics policy to be effective, it's got to be intrusive," said John F. Risko, CEO of Oakland, Calif.-based National Airmotive Corp., at a 1997 meeting sponsored by the Conference Board, a New York City-based national business organization that brings executives together to share practical experiences. National Airmotive, which repairs and overhauls aircraft engines, has about 500 employees.

"You have to go out of your way to men-

tion it at a time when you wouldn't ordinarily mention it," Risko said, "to drive the point home to the employees that this is something you're committed to." You must make it clear that if an ethical problem arises, "it's not just an option to discuss it"—it's expected.

**An ethics program must involve employees from the start.**

Management should welcome the "intrusion" that comes from ethics consciousness in the ranks. Employee involvement—compared with the threat of government intervention or pressure from shareholders—is usually the best way to keep an ethics program energized and focused.

In words that could apply to many small businesses, Stephen I. Kasloff, ethics officer for Guardsmark, a security firm based in Memphis, Tenn., told the Conference Board audience: "We're a privately owned company, and we're not involved with a regulated industry, so a lot of the impetus to do the kinds of things that we do really must come from within. We want our folks to participate in our process."

To get that kind of employee buy-in, don't tell employees what their values should be but rather ask them what they are. Let their values, as well as your own, shape the company's ethical standards. You may find that your employees have a better-developed ethical sense than you have.

Likewise, you should have channels for reporting and correcting unethical behavior. "There's got to be some way for employees to report to the president or whoever's overseeing compliance with the ethical values"—and even to question the CEO's own behavior, says the Center for Business Ethics' Hoffman.

**An ethics program must recognize that ethical issues are pervasive.**

Issues of many kinds—involving communications or other management matters—can have a strong ethical component.

A failure to communicate clearly with the customer, for example, can be a symp-



## MANAGING

tom of a dangerous disregard for the customer's best interests.

In the automotive industry, says Peter Fink, owner of Certified Transmission Rebuilders, based in Omaha, Neb., "you have to spend a little time with the consumer and let them know what you're going to do and why you have to do it." It's in part to facilitate such communication that Certified emphasizes constant in-house training.

Honest communication can itself lead to ethical challenges. "The first question out of everybody's mouth," Fink says, "is, 'How much will it cost to fix it?'"—a question that he refuses to answer over the telephone.

When the customer does bring a car in, he says, "we give you the worst-case scenario and work backward; that way the '5 o'clock surprise' is that you owe me \$200 less than you thought you would."

The hazard in that approach, he acknowledges, is that some people will take their cars to a shop that gives them a lower estimate—over the phone.

Ethical business behavior—honest communication—can thus mean giving up a financial advantage, but perhaps only temporarily. Fink sometimes ends up towing in cars that have wound up in a competitor's shop—where the over-the-phone estimate turns out to have been much too low.

Edelstein of TeleManagement Services also must deal with customers whose expectations are unrealistic "on the high side," he says, "and I just don't want to have an unhappy client. For sure, when they're expecting 70 percent [response from a telemarketing campaign], and you know the best experience you've ever had is 45 percent, and there's nothing compelling about their program, it's our responsibility to tell them that."

Both Edelstein's company and Fink's Certified Transmission Rebuilders were state honorees last year in the Blue Chip Enterprise Initiative. The program recognizes small firms that have met challenges and emerged stronger as a result. It is sponsored by Massachusetts Mutual Life Insurance Co., known as MassMutual—The Blue Chip Company, and by the U.S. Chamber of Commerce, *Nation's Business*, and "First Business," the Chamber's weekday morning television news program.

**E**ven when a small business hasn't adopted a formal ethics program, a companywide commitment to ethical practices can have an impact that may not be within the reach of even the most ethical large corporation.

Because ethical decisions at a small business don't have to be filtered through a corporate bureaucracy for approval, the people at small companies are uniquely well-equipped to clothe the concept of business

ethics in what Hoffman calls "a human dimension, a social dimension." Ethics at such small firms cease being an abstraction and instead become people showing concern for one another in a business setting.

Transmission Rebuilders on giving customers the assurance that they're not paying for repairs they don't need.

Fink, who has about 140 employees at 10 retail locations in four states, purposely

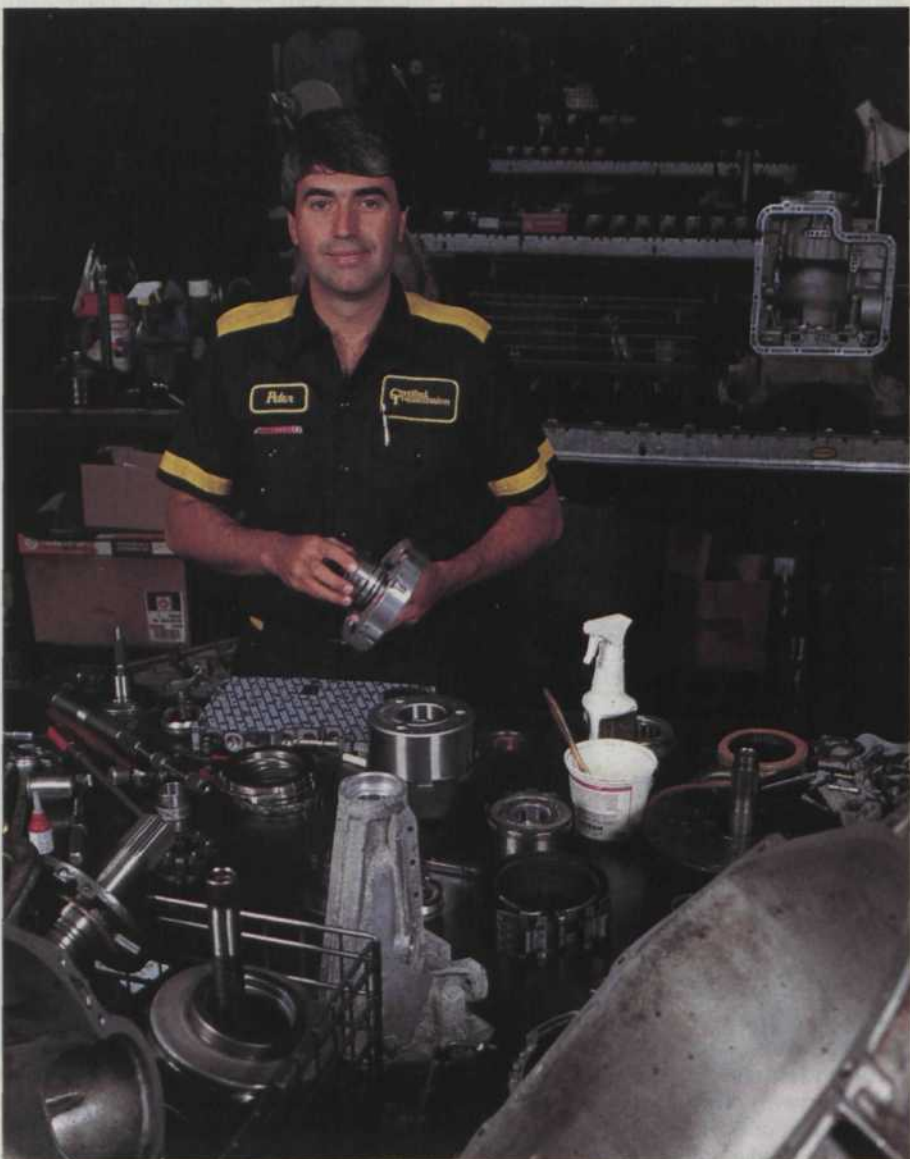


PHOTO: GRANDY HAMPTON—BLACK STAR

**At his auto-transmission business based in Omaha, Neb., Peter Fink's commitment to ethical practices means, among other things, assuring customers that they're not paying for repairs they don't need.**

Small businesses are almost by definition vulnerable; setbacks that might not faze a mismanaged big business can put a small firm out of business in weeks or months. A commitment to ethical practices can translate that vulnerability into a companywide determination not to take advantage of others who may be either temporarily or permanently in a similar position.

Probably no one feels more vulnerable, for instance, than the automotively unlettered customer facing the prospect of major repair work. Fink has built Certified

does not pay his diagnosticians on commission, he says, "because we don't want that to influence their decision."

He asks customers whose transmissions have been replaced to bring their cars back for a second examination within 15 days (an arbitrary time limit that's intended just to encourage them to return; Certified will recheck the car free whenever it's brought back in).

"We do a follow-up on it, which is very expensive and time-consuming, to make sure it's right," Fink says. "It's tough to tell a



customer it's not working right when they don't even realize it's not, but we'll do that." If Certified has to redo any of its work, it will provide a rental car—as well as do the additional work—without charge.

Many other small firms offer customer service that is comparably ethical at its core. Dolores White, who is the fourth generation of her family to run E.E. Ward Transfer and Storage Co. in Columbus, Ohio, says that the 15-employee moving company has stayed in business as long as it has—since 1881—"because of our reputation."

Years ago, when her grandfather was running the company, "he was highly respected in the community because he had such a warm personal touch with everyone," she says. "This is what we've tried to inspire in our men: Do the best job, and be concerned with our customers."

Many times, she says, "the moves are not pleasant ones; some are the result of divorces or deaths. We do a lot of moves where senior citizens are leaving their homes and going to retirement centers, and our men work well with them, they're



PHOTO: CLARRY HAMILL—BLACK STAR

Showing genuine concern for customers is one factor that has helped Dolores White's family-run moving company stay in business for more than 100 years.

## Should You Put It In Writing?

The experts have a short answer—"yes"—when asked whether a company should put its ethics policy in a written code.

"I would strongly encourage small businesses to have a code or credo or set of standards that they and their employees agree to abide by," says Michael G. Daigneault, president of the Ethics Resource Center in Washington, D.C. "What a code tends to do for an organization is establish a set of expectations, an understanding, a common language."

Such codes "benefit small organizations every bit as much as large organizations," Daigneault says. He even suggests bringing customers and vendors in on the formulation of the code. Be as inclusive as possible, he says.

W. Michael Hoffman, executive director of the Center for Business Ethics at Bentley College in Waltham, Mass., says that a company that thinks it doesn't need a formal code—because everyone works so closely together and everyone is so busy—is "in serious danger. You haven't set up any process where your values can be questioned, where they can be living values that are constantly involved in your business decision making."

One of the first steps a company takes

in drawing up a code, Hoffman says, should be to form an ethics committee that includes the CEO and other employees from throughout the company to analyze the policies under which the firm already operates.

A company that conducts such a self-examination, Hoffman suggests, will probably uncover inconsistencies in how employees in different parts of the company are dealing with similar issues. Likewise, there may be "ethically sensitive areas" where no policy exists.

"For example," he says, "maybe there has been no real policy made in terms of gaining competitive information, and all of a sudden you realize that you've been trying to get competitive information in ways that you're not sure are consistent with your values."

Are you getting such information from a customer, perhaps, or from a disaffected employee? Do you want to continue doing that? "You need to sit down in that ethics committee," Hoffman says, "and begin to decide what kind of policy you want to operate under."

The next step, he says, is to reduce all the old policies you've gathered up, and the new ones you've formulated, "into some kind of code of conduct." Then small groups—perhaps, in a 50-employee firm,

they could be made up of four or five employees each—should discuss and sharpen the code.

If employees have a say in formulating the code, Hoffman says, "they're apt to have more buy-in, to be committed to this code. That's extremely important." To be successful, a code can't be imposed from the top, no matter how many or how few employees you have.

The code should include commonly asked questions—preferably related to the industry the company is in—that come out of the small groups, because new employees, when they read the code, will have many of the same questions.

Once a code is established, it should be re-examined continually, perhaps by a committee of employees that can recommend changes in it before it's reprinted.

When a company's leaders live up to a code, Hoffman says, "they make a code of conduct a living, breathing thing, rather than something you write up and put in a drawer."

Stories about the leaders' ethical actions can become corporate myths or legends "that solidify a true culture for a company," he says. "People try to emulate them."

However, he continues, "if a company is depending on its ethical culture's being driven by stories, without any systematic code of business conduct, there is danger. I think you need both."



## MANAGING

very patient with them, and try to help them as much as possible. A lot of retirement homes refer them to us."

That same concern for the vulnerable aged is evident in what Gwenith Hulsey says about the residents of Agape Manor and Village, her assisted-living facility in Hazel Green, Ala. "We work very, very closely with the families," she says. "We keep them informed, and we want them involved."

Agape, which also was a 1997 state honoree in the Blue Chip program, holds two or three events a year aimed at bringing together families, residents, and staff members.

"Sometimes people run out of money," she says. "In that situation, we've worked with the families to help them continue their stay with us. We find out what the families can contribute, over Social Security, and then we just

write off part of their bill. You care for them, and you don't want to disrupt their lives because of money. It's hard to move someone who's 98 years old."

In Hulsey's case, her concern for Agape's residents and their families has been repaid with their concern for Agape itself. She recalls a situation when a resident fell

at Agape, broke a hip, and ultimately wound up at a rehabilitation facility. "I don't know what happened there," Hulsey says, "but the family was very disturbed."

"They talked to an attorney about suing, and the attorney suggested they start with where she fell." As the resident's daughter told Hulsey, she rejected the idea because she had seen for herself the concern that Hulsey and Agape's employees felt for her mother.

"Most human beings have memories," says Delta Sand & Gravel's Alan Babb in what could be a motto for a small-business ethics program. "We would rather they have good memories of us than bad memories." **NB**



PHOTO: MIKE CLEMMER

*At her assisted-living facility in Alabama, Gwenith Hulsey and her staff focus on keeping the families of residents informed and involved.*

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TAXES

# Easier Deductions For Home Offices

*The restrictions on writing off home-office expenses will become more taxpayer-friendly next year.*

By Joan Pryde

**M**ichael Mattes operates an executive-search firm out of his home in Perkiomenville, Pa., but he doesn't claim a tax deduction for his home-office expenses. He conducts a portion of his business away from his office, so he knows that he doesn't qualify for the tax break.

But that will change—for Mattes and possibly millions of other small-company owners who operate from home. The Taxpayer Relief Act of 1997, signed into law Aug. 5, expanded the home-office deduction. Beginning with the 1999 tax year, individuals will qualify for the deduction even if they use their home office mainly for administrative tasks and do the bulk of their work on the road.

The change could benefit taxpayers across the professional spectrum—from accountants and consultants to home health-care workers, house painters, and real-estate agents—who currently fail to qualify for the deduction.

The U.S. Small Business Administration says the new law could save small-business owners who qualify as much as \$2.3 billion over 10 years.

"Up to the passage of this law, home-office operators [who spent a significant amount of time out of their offices] were penalized" by being denied the opportunity to deduct home-office expenses, says Mattes, who has been in business since 1969. "I'm very pleased" with the new law because "it highlights the importance of the record-keeping side and the administrative side" in a home-based business.

Mattes says he has always considered it unfair that home businesses like his could not deduct operating expenses while other companies could do so. The new law removes "that double standard," he says.

## The Original Requirements

Under the current rules, individuals can take the deduction if they use an office in their home as their "principal place of business." They must conduct business regularly and exclusively at that site, and they cannot use the site for any activity other than the business.

Until the new law takes effect, virtually all of your business has to be performed in your home office for it to be deemed your principal place of business. If you repair computers, for example, you have to fix



PHOTO: GAIL DIMARCO JR./BLACK STAR

**Allowing expense deductions for home-based companies that conduct some of their business off the premises eliminates a double standard in tax rules, says Michael Mattes, who runs his executive-search firm from his home.**

them at your office, not at your customer's place of business. If you are in sales and meet regularly with clients, the clients must come to your home office for you to qualify for the deduction.

Mattes decided he couldn't take the deduction because, although he does a lot of work in his home office, he also spends a significant amount of time visiting employer-clients, and he often interviews job candidates away from his office—usually at a restaurant over breakfast or lunch.

## The Broadened Rules

The tax change expands the definition of a "principal place of business" beginning Jan. 1, 1999, to include home offices where the following two conditions apply:

- The taxpayer uses the office for administrative or management activities.

- The taxpayer does not conduct "substantial" administrative or management activities anywhere else. (A taxpayer could, for example, do minimal paperwork at another location and still be eligible for the deduction as long as most of the paperwork was done in the home office.)

In changing the rules, "Congress is recog-

nizing the fact that virtually every business needs some location where records can be stored, paperwork can be done, mail can be opened and filed, and other administrative details can be managed," says Susan Jacksack, a small-business analyst for CCH Business Owners Toolkit of Riverwoods, Ill., an online information service for firms.

Tax accountants and attorneys add that taxpayers who qualify for the deduction under the rule change can also deduct the cost of traveling between the home office and a client's place of business.

## Still A Red Flag

Proper record keeping is vital in case you must prove to the Internal Revenue Service that you claimed the home-office deduction legitimately. The deduction has long been a red flag that can trigger an audit, and that's not likely to change, says John Gardner, senior manager in the Washington, D.C.-based national tax office of accounting firm KPMG Peat Marwick.

"This will remain an audit item that the IRS is going to take a close look at for a while to make sure everybody is still following the rules," Gardner says.



## FINANCE

# A Little-Known Pathway To Growth

By Juan Hovey

**D**o you run a business with a healthy cash flow? Need capital for expansion or for an acquisition campaign? Want to keep control of your company?

If so, you may be a candidate for mezzanine financing—a sophisticated way to raise capital that is not widely known among small-business owners but often is a powerful tool for growth.

Mezzanine financing—so called because it raises growth capital for firms that are well beyond the start-up stage but not yet far enough off the ground to go public—makes the world of high finance accessible to established, privately held businesses of almost any size.

A company can raise amounts typically ranging from \$1 million to \$20 million—sometimes even more—in a mezzanine deal, and although the technique dilutes ownership, the business owner pursuing such financing rarely gives up control.

Best of all, a mezzanine deal can ally the business owner with patient capital—investors who look to the long term for their payoff.

A mezzanine deal involves a number of technical terms: senior and subordinated debt, private-placement transactions with institutional lenders, and equity investment.

Before pursuing such financing, a business owner should understand the terms:

**Senior debt** refers to loans from sources such as banks and secured by liens on specific corporate assets—for example, property or equipment.

If the borrowing company goes under, the secured lender has first claim against those assets.

**Subordinated debt** is a term for loans secured by general claims on the assets of a business (as distinct from claims against specific assets). In a bankruptcy proceeding, a lender holding subordinated debt stands next in line behind secured lenders in pressing claims.

*This story is part of a continuing series on ways for small companies to locate the financing they need to run their businesses.*

**Institutional lenders** are sources of capital financing such as life insurers, pension plans, and banks.

**Private placements** are transactions in which a business, through an intermediary such as an in-

*Mezzanine financing is an obscure but effective expansion tool even for small firms—provided their cash flow is strong.*

**Equity investment** is a term for capital raised by selling stock in a business.

What all of this means is that in a mezzanine deal, a business owner borrows some of the money needed and raises the rest by selling stock in the business to the same people from whom money is borrowed.

As a rule, you pay only interest on the money you borrow (at prime plus two to four points) for five years or so. At that point, you cash out your investors by going public or by recapitalizing your business in a new round of financing. Your investors, meanwhile, have earned interest on their loans, and if the value of your business has increased, they realize capital gains by selling their stock in your company.

## Funds For Acquisitions

Mezzanine financing works particularly well for companies with ambitious acquisition plans, and that's what Michael A. D'Amelio, president and CEO of TACC International, a manufacturer of industrial adhesives and sealants in Rockland, Mass., had in mind 18 months ago. At the time, his company had revenues of \$20 million, and D'Amelio wanted to expand it rapidly.

His first round of mezzanine financing, in August 1996, raised \$25 million in debt financing, including some secured by his company's assets, plus \$5 million in equity financing. In a second deal a year later, D'Amelio raised \$55 million more—\$45 million in debt and the rest in equity.

The result? Dramatic growth. TACC International's revenues raced to \$100 million last year. D'Amelio thinks revenues may double this year.

"We had two things going for us," D'Amelio says. "We had significant equity on our books going into our first deal, and the cash flows we derived from our ac-

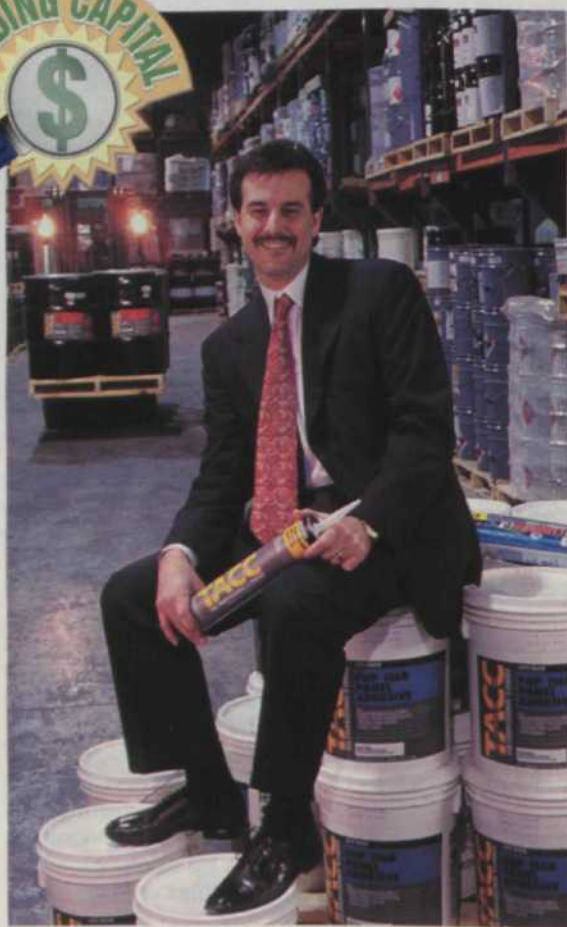


PHOTO: ERICHARD HOWARD

**Fifteenfold revenue growth in 18 months was one of the benefits of mezzanine financing for adhesives manufacturer Michael A. D'Amelio's expanding company, TACC International.**

vestment banker, borrows money from institutional lenders, or sells them stock, or does both.

Many private-placement transactions also involve the sale of stock to private equity groups—essentially, groups of wealthy private individuals who pool their capital for investment.



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## FINANCE

sitions allowed us to support more debt than would be normal for a company our size."

Both cash flow and debt were crucial to his deals, D'Amelio says. "The more equity financing you do, the more of your business you give up," he says. "As the majority stockholder, I wanted to give up as little as possible, but I had to balance that against my growth goals and our ability to do acquisitions."

TACC International completed four acquisitions in 12 months. "In some cases, the acquisitions expanded our presence in markets we were already in, and in others we added dynamic products that we could spread across other markets," says D'Amelio. "The acquisitions were a two-way street. We brought significant assets to the acquired companies, and they brought us volume and new technology."

D'Amelio sought mezzanine financing because TACC International didn't have the hard assets to secure enough conventional bank borrowing to pay for his acquisition campaign. Nor did the companies he wanted to buy.

"When you acquire companies that don't have the balance sheets to support senior-debt financing, you need to go to the secondary markets for private-placement financing," D'Amelio says.

### An Uncertain Volume

At \$30 million and \$55 million, D'Amelio's deals raised more capital than most mezzanine packages. A typical deal raises between \$10 million and \$20 million for a company doing as little as \$10 million in revenues, often less.

Because the deals are small, it's hard to gauge the volume of mezzanine financing for small firms. Nationwide, the technique raised more than \$820 million in 1996 for companies of all sizes, according to the *Private Placement Letter*, published by IDD Enterprises in New York City.

From January through mid-November of 1997, however, big investment bankers such as Credit Suisse First Boston, Morgan Stanley Dean Witter, and Sutro arranged only 21 deals of \$20 million or less, most of them involving small businesses, according to Securities Data Co., a financial database in Newark, N.J.

But that surely understates things. Nationwide, about 50 private investment funds specialize in mezzanine financing for small businesses, according to Jeri

**"A company can leverage two to three times its cash flow in senior secured debt. It can raise total debt to four to five times cash flow with a mezzanine deal."**

—Investment Banker  
Jeri Harman

Harman, a senior vice president for corporate finance at Van Kasper and Co., an investment-banking house in Los Angeles. In all, they may do \$500 million in mezzanine deals per year, according to Harman.

A Fortune 100 company may raise that much debt in a single bond issue, so even taken as a whole, the marketplace for mezzanine financing doesn't come to much. But it can do good things for the right company.

No matter what the numbers are, however, investment bankers eagerly look for mezzanine deals

involving small and medium-sized companies—only to discover that most owners of businesses in those categories have no idea that this source of financing even exists.

"The mezzanine marketplace is probably the least understood financial marketplace there is—maybe the most unheard-of marketplace," Harman says. "Most business owners are familiar with banks as a source of capital, and many know about private equity groups [see "A Source Of Funds In Search Of Work," September], but they don't realize there's another marketplace for capital that, if used correctly, can enhance growth."

The rule of thumb, Harman adds, "is that a company can leverage two to three times its cash flow in senior secured debt. It can raise total debt to four to five times cash flow with a mezzanine deal. So if the

company is doing \$2 million in cash flow, it can probably raise \$4 million to \$6 million in senior debt and \$4 million to \$5 million more in mezzanine financing, for a total debt of \$10 million, or five times cash flow."

Nonetheless, Harman says, "you have to show a track record of generating that kind of cash flow for at least two years because you have to make your interest payments."

### Getting Started

What else does it take to complete a mezzanine deal? Investment bankers look for strong profits in addition to cash flows big enough to finance the debt. A business owner also needs to show audited financials covering at least two years plus a business plan projecting the next three to five years, Harman says.

"Most important, you need an intermediary—because this is a diffuse marketplace," she says. "I strongly recommend that the business owner make contact with an investment banker who can put the deal together. A lot of mezzanine funds don't go above \$5 million, and some don't go below \$15 million. You need an investment banker who knows the right sources."

It takes at least three months to finalize a mezzanine transaction, and the costs—including investment-banking, legal, and accounting fees—can equal 5 percent of the deal, according to Harman.

"The good news is there's a lot of money chasing quality deals," Harman says. "A mezzanine deal gives you patient capital from someone who thinks like an equity partner. That's great for growth." **18**

Juan Hovey is a free-lance writer in Thousand Oaks, Calif.

## It Takes A Team Of Specialists

If you think your business is a candidate for mezzanine financing, you need a team of specialists, starting with a good investment banker who knows how to do small deals.

Securities Data Co. (212-765-5311) publishes two reference books that could prove useful—the *Directory of Buyout Financing Sources* and *Pratt's Guide to Venture Capital Sources*.

Available in many libraries, these books list investment-banking firms around the country and their financing sources, among them venture-capital firms, private equity groups, and mezzanine funds. The books can be purchased for \$325 each.

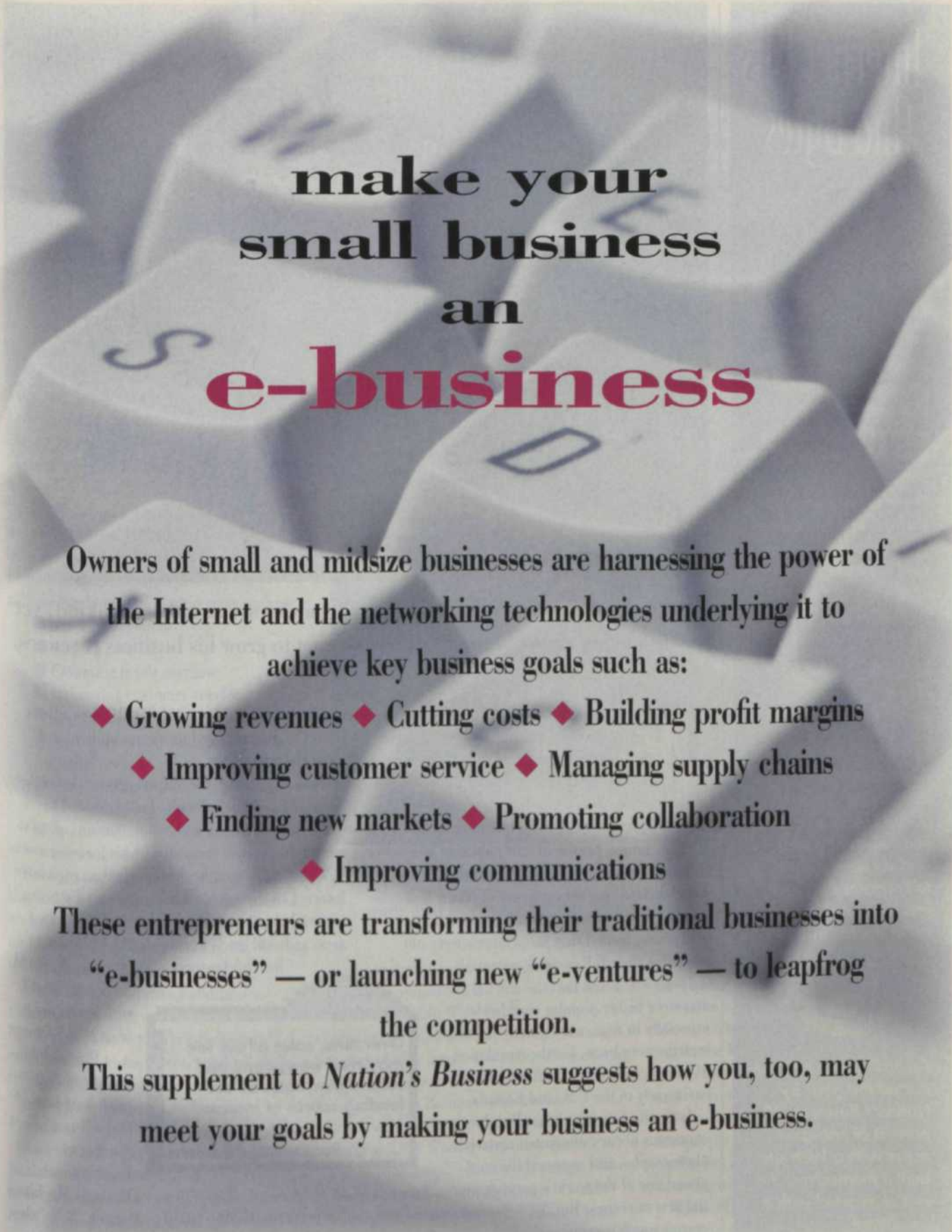
Two other sources of such information

are *Corporate Finance Sourcebook* (\$550), published by Reed Elsevier Publishing (1-800-323-3288), and *Security Dealers of North America* (\$475), published by Standard & Poor's (1-800-221-5277).

You also need legal and accounting help far beyond the expertise of most lawyers and accountants. The best way to find the special experience for mezzanine deals is to ask your professional advisers for referrals. Your investment banker is another good source.

It takes at least three months to complete a mezzanine deal under ideal conditions, and up to six months in many circumstances. So be patient and make sure you assemble a team with which you can work comfortably.





# **make your small business an e-business**

Owners of small and midsize businesses are harnessing the power of the Internet and the networking technologies underlying it to achieve key business goals such as:

- ◆ Growing revenues ◆ Cutting costs ◆ Building profit margins
- ◆ Improving customer service ◆ Managing supply chains
- ◆ Finding new markets ◆ Promoting collaboration
- ◆ Improving communications

These entrepreneurs are transforming their traditional businesses into “e-businesses” — or launching new “e-ventures” — to leapfrog the competition.

This supplement to *Nation's Business* suggests how you, too, may meet your goals by making your business an e-business.



# Internet Bits And Bytes



In January, about 41.5 million adults in the U.S. said they use the Internet, according to research firm Find/SVP. Some 85 percent of those users said they surf the World Wide Web, and 75 percent said they use e-mail.



Last year about 10 million people worldwide used the Internet to purchase about \$2.4 billion worth of goods and services, according to Forrester Research, Inc. That total is expected to double in 1998.



According to a poll conducted last year by Nation's Business, 33 percent of entrepreneurs with a Web site built it themselves; the rest contracted with a consultant.

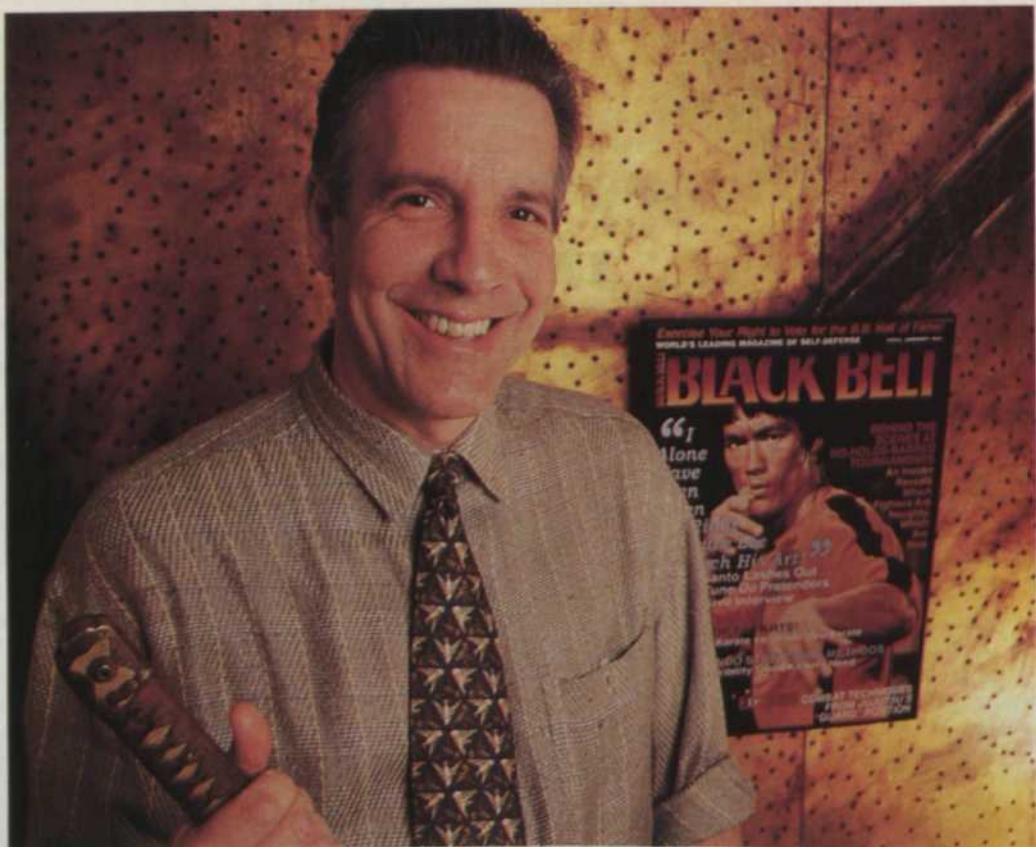


PHOTO: ©PATRICIA LANZA

The martial arts that Michael James chronicles are as old as mankind, yet he decided to embrace the youthful Internet to grow his business revenues.

For 37 years, *Black Belt* magazine has been providing martial artists with news, tips on techniques, and other information about their crafts, and the venerable publication's monthly readership has reached 100,000. Yet two years ago, Michael James, president and publisher of Rainbow Publications, Inc., the suburban Los Angeles-based parent company of *Black Belt* and two newer, smaller-circulation martial-arts magazines, fretted that his products were not achieving their full revenue potential.

James knew well that the martial arts were highly popular worldwide, especially in Asia, where many fighting systems were born, yet the circulation of his magazines was confined almost exclusively to the U.S. and Canada.

James had surmised that Rainbow's enormous library of printed material, photographs, and memorabilia comprised one of the world's premier martial-arts museums. But the collection was not generating much revenue.

Finally, James bemoaned the fact that his

ancillary book, video, and CD-ROM products weren't being exposed to a mass audience of potential customers.

Ironically, though the martial arts he chronicles are as old as mankind itself, James decided to embrace the youthful Internet as a means of maximizing the revenue generated by his business assets.

Within a few months, he launched an expansive Internet site ([www.blackbeltmag.com](http://www.blackbeltmag.com)) featuring material of interest to martial artists of all types, ages, and skill levels worldwide. And in keeping with his business goals, the site, designed

and constructed with assistance from Red Sector A, a Philadelphia-based Internet-consulting firm and a Business Partner of International Business Machines

Over time, sales at our site may rival newsstand and subscription sales as our leading source of income.

—Michael James,  
Rainbow Publications

Corporation (IBM®), based in Armonk, N.Y., also contains subscription information, sales promotions for Rainbow's memorabilia items and ancil-



## SPECIAL ADVERTISING SECTION

lary products, and other revenue-raising devices. Although the site is relatively new and still is not as comprehensive as James envisions it will eventually be, he says it's generating ever-increasing subscription and product revenues. "I'm more confident than ever that, over time, the site will rival newsstand and subscription sales as our leading source of income and make our company much more international," he says.

**We found that we could reach a high quantity and quality of customers over the Internet.**

**—Keith P. Clougherty,  
Roxy Systems**

ready for business. The hardware and software technologies, the protocols for communications and secure transactions, and the economies of scale have been established. With a well-conceived and

Internet is a great "shortcut to adding capacity," agrees Tom Smith, IBM's general manager in North America for small and medium-sized businesses. Thanks to the Internet, he says, "they don't have to wait to grow big if they have really big ideas."

## Becoming An E-Business

James is among the fast-growing number of entrepreneurs transforming their traditional small and midsize businesses into "e-businesses" or launching new "e-ventures."

The distinguishing characteristic of e-businesses is their use of the Internet and its powerful underlying networking technologies to help solve tough business problems or achieve fundamental business goals such as:

- Growing revenues.
- Cutting costs.
- Fattening profit margins.
- Improving customer service.
- Tapping new markets.
- Managing supply and distribution chains.
- Encouraging and facilitating employee collaboration.
- Improving internal and external communications.

For some e-business pioneers, achieving the desired results calls for construction of an Internet-like internal network known as an intranet. (See "Intranets Enable Sharing Of Information," Pages 48 and 49.)

For others, it requires building a so-called extranet. An extranet is an Internet-like secure private network consisting of a company and its suppliers, vendors, distributors, and selected customers. (See "Networking Allows Close Ties With Partners," Page 50.)

And for still others, succeeding as an e-business involves establishing and growing a commercial presence on the public Internet itself. Indeed, authorities on the networking industry generally agree that the Internet finally is not only open for business but also



PHOTO: ERICHARD HOWARD

**It didn't take Keith P. Clougherty long to scrap his traditional business plan and begin selling satellite dishes on the Internet exclusively.**

well-constructed site on the graphical, interactive component of the Internet known as the World Wide Web, industry analysts note, even small start-up enterprises can compete with large, well-entrenched companies anywhere in the world.

James says Rainbow Publications' Internet presence has "put us in the same game as Time Warner and other global media companies." But by adopting a Web-based transaction model, he says, "unlike those giant companies, so far I haven't had to add a single overseas office or employee."

For small companies like Rainbow, the

And online sales by the big-idea crowd have never been so vigorous.

Forrester Research, Inc., of Cambridge, Mass., expects worldwide consumer spending on the Web to total approximately \$4.8 billion this year, about twice that of 1997 and up from about \$530 million in 1996.

Forrester notes that the estimated 10 million people worldwide who made purchases on the Net in 1997 were not merely a limited audience of technophiles.

While PC hardware and software was, indeed, last year's top-selling category of online products, with sales totaling an esti-





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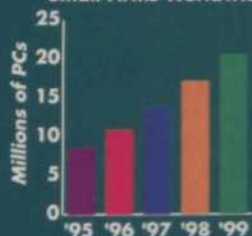
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# Intranets Enable ...

Networked PCs In  
Small Firms Worldwide



For many entrepreneurs, a first step in becoming an e-business involves the use of a so-called intranet to improve the way people within their company communicate with one another, share information, and work together in general.

Like the Internet, an intranet is a powerful business tool. It's just smaller in scale. Instead of spanning the globe, an intranet functions only within a company.

In most cases, people access intranet resources from their desktop PCs using a standard Web browser. They navigate the intranet by clicking underlined words or objects that appear on pages created by the company.

With an intranet, small-business owners can:

- Exchange e-mail with employees.
- Publish documents such as forms, memos, and company policies.
- Manage projects.
- Maintain customer and supplier information.

(Continued on Page 49)



PHOTO: ©DAN LOFTIN—BLACK STAR

David Mason, seated in foreground, and his brother Michael, standing, built their entire book and video sales business on the World Wide Web.

mated \$863 million, the remainder of Forrester's top-10 sales list had a distinctly low-tech flavor:

- Travel: \$654 million
- Entertainment: \$298 million
- Books, Music: \$156 million
- Gifts, Flowers, Greetings: \$149 million
- Apparel, Footwear: \$92 million
- Food, Beverages: \$78 million
- Jewelry: \$38 million
- Sporting Goods: \$20 million
- Consumer Electronics: \$19 million

## Leap Into Cyberspace

While entrepreneurs such as James successfully employed the Web to augment their core revenue-generating operations, others expanded their businesses by moving them to the Web entirely. Take, for example, Roxy Systems, Inc., of the Boston suburb of Hopkinton.

In the spring of 1996, Keith P. Clougherty founded Roxy to sell consumers the equipment and service agreements needed to receive television broadcasts via satellite. At first he attempted to reach potential customers via telephone and direct mail. And that summer he launched an Internet site ([www.satellite.com](http://www.satellite.com)) to augment his conventional

marketing efforts. Consumer response to the site was so positive that in January 1997, Clougherty scrapped his original business plan and began selling on the Internet exclusively.

"At first we merely wanted to add a simple Web site as a complement to the business. But we soon found that we could reach a higher quantity and quality of customers over the Internet," says Clougherty, who is Roxy's president and chief executive officer. Moreover, he says, a high percentage of Internet inquiries resulted in sales. In fact, sales in the fourth quarter of 1997 totaled \$2 million—up 1,000 percent from the same period a year earlier, when orders came mostly from catalogs and direct mail.

Clougherty and his staff built the [satellite.com](http://satellite.com) Web site themselves using off-the-shelf software. While this saved money, it resulted in a site that lacked sophisticated auto-

IBM was one of the pioneers of Internet security, so we felt pretty good about choosing them.

—Michael Mason, SpeedServe

mated transaction-processing capabilities. "We were managing to get the order-processing job done," he says, "but for the volume we were starting to do, we weren't attaining efficiency." So when



## SPECIAL ADVERTISING SECTION

Clougherty decided to launch a second Web venture ([www.roxy.com](http://www.roxy.com)) to sell consumer-electronics equipment, he decided to seek help from professionals. "IBM came in with a comprehensive Web solution," he explains. "We were very impressed with their interest in a small company like ours."

## The Path Most Taken

Clougherty took the most traveled path to becoming a full-scale e-business, according to industry observers. The first step along the way entails constructing a simple informational Web site containing pages on the company and its products. A plain-vanilla site is cheap to build, and most communities now have at least one service provider equipped to make homemade sites accessible across the Internet.

"I advise small-business owners, who generally have limited capital, to start small and see where it goes from there," says Steve Wittenborn, IBM's manager in North America for small-business marketing. IBM can help them get started via inexpensive, easy-to-use tools such as the Home Page Creator\* software, he says. And when they're ready to take the next and succeeding steps toward full-blown e-commerce, Wittenborn adds, IBM can provide integrated hardware, software, and services solutions supported by attractive financing options. (For more information on IBM's e-business offerings for small and midsize businesses, see "IBM Can Help," Page 50.)

Indeed, most small companies need the help of professionals to create sophisticated, attention-getting sites. Experts note that it's essential to choose a technology partner that's capable and caring. "For a small business, it's a large and costly process to have to switch suppliers in midstream because the initial choice was the wrong one," says IBM's Smith. "Allying from the start with a national manufacturer provides the prospect of never interrupting the continuity of your e-business, no matter how large it gets." As for making the final selection among competent vendors, he says, "it's a function of finding one that you sense can dream your business dream with you."

And for most e-entrepreneurs, that dream is to grow into a Web site that's as sophisticated as Clougherty's—one that's equipped to advertise products, process sales transactions, provide customer service and support, and manage the outbound flow of products and the inbound flow of inventories.

Still, the Internet business model is so new that the best road to success has yet to be firmly established. While many e-business owners take the most-traveled route, others take shortcuts.

Consider, for example, self-professed "aggressive entrepreneurs" David and Michael Mason. Three years ago the Mason brothers, of suburban Nashville, Tenn., decided to launch an Internet-based venture in retailing—books and films, to this point—that they named SpeedServe, Inc. Skipping all the intermediate steps, they constructed a full-scale commercial site, which they called BookServe ([www.bookserve.com](http://www.bookserve.com)).

"We thought BookServe provided a way to enter an emerging market and really develop a global brand," says Michael Mason. "We really wanted to grow quickly. The allure of reaching a global market was pretty strong."

And, at least based on the size of their inventories, grow quickly they did. The popular BookServe site now features more than 1.4 million titles for sale. And VideoServe ([www.videoserve.com](http://www.videoserve.com)), a video-sales venture launched last fall, offers customers more than 85,000 videotapes, laserdiscs, and DVDs.

## IBM Provided The Solutions

As was true of Roxy Systems, SpeedServe's first site was homespun. But when book browsers and buyers began flocking to the site, the Masons knew it was time to upgrade. "We talked to a lot of consultants," recalls Michael Mason, who ultimately selected IBM. The decision, he says, was based in part on the recommendations of book-publisher suppliers, many of whom were IBM customers.

Also important were the security features the IBM offerings contained. "IBM was one of the pioneers in Internet security, so we felt pretty good there," Mason says. He adds that the IBM offering was highly flexible, which is important because the number of customers visiting his sites varies widely by time of day, day of the week, and month of the year. "By using the IBM platform, we can handle the peaks and valleys in traffic that we couldn't handle before," he notes.

The common element among James of Rainbow Publications, Clougherty of Roxy Systems, and the Mason brothers of SpeedServe is not how they became e-businesses or what type of e-venture they are, but that they identified the Internet as an effective and affordable means of growing or starting their businesses.

# ... Sharing Of Information



(Continued from Page 48)

■ Facilitate collaboration among employees in the same department or work group.

■ Extend company resources to employees working on the road or at home.



To set up an intranet, a small company needs a local area network of PCs, Web browser software, and Web server software such as IBM's Lotus Domino\*\*. Also necessary is a dedicated computer for the Web server software and the company's intranet pages.

Domino also incorporates the collaboration and communication capabilities of IBM's Lotus Notes\*\* groupware software, which allows users to send and receive e-mail and work together on documents using either a Web browser or Notes itself.

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## Networking Allows Close Ties With Partners

Some of small-business owners' best opportunities for increasing profits using the Internet will come from using the fast-growing medium to forge private links known as extranets with trading partners, suppliers, and customers.

These networks can substantially improve the cash flow of participating companies by compressing the time that elapses between the placement of orders, the arrival of products, and the payment for those goods. In some cases, extranets can allow participants to reduce their purchasing and other staffs.

This form of trade among cooperating businesses is taking off. Industry analysts at Forrester Research, Inc., in Cambridge, Mass., predict that business-to-business electronic commerce will reach \$327 billion in 2002, up from \$8 billion last year. The Yankee Group, a research firm in Boston, expects \$171 billion in business-to-business e-commerce in 2000.

E-commerce among partnering businesses isn't new. Large companies have been trading with one another electronically for more than a decade through a process called electronic data interchange (EDI), which allows companies to order and pay for products via private computer networks. However, the high cost of these private networks shuts most small companies out of EDI.

The Internet has made participation by small firms in business-to-business e-commerce affordable. And many large companies that previously traded exclusively over EDI networks have moved to the Internet-based extranets.

Extranets combine the security of a private network with the open nature of the Internet. While extranets technically are part of the Internet, access is restricted to authorized individuals. Technically speaking, all a small firm needs to

participate in an extranet is a dial-up Internet connection and a Web browser.

"The Internet and extranets have brought electronic trading to the top from the bottom of the trading chain," says Bruce Jackson, vice president of network outsourcing for the Global Services group of IBM. "Small companies are able to trade with large companies, small companies, and with their own customers."

Small companies are creating their own extranets, as well. Online start-up

Industrywide Mortgage Exchange (IMX) in San Ramon, Calif., has created an electronic trading system that brings together



**The Internet and extranets have brought electronic trading to the top from the bottom of the trading chain.**

**—Bruce Jackson, IBM Global Services**

mortgage brokers and lenders on a secure Web site that isn't open to the public.

At IMX's site, launched in September, brokers submit mortgage applications and the system notifies lenders whose products fit the broker's search criteria. Interested lenders then submit bids on the mortgage. Lenders pay IMX a fee for the service.

IBM's Jackson says security is crucial to keeping an extranet private. Extranets offer a layer of protection by putting a company's content behind a firewall, a type of software that restricts access to outsiders.

"Firms want to have open, easy availability to their Web site for general information about the company," Jackson says. "However, they may want some data available to only some of their customers. By using a secure Internet connection and placing it behind a firewall, they can restrict access to only some select users. They can have a very successful session without the security risk of a public site."



## REGULATION

# An Expanded Push For Drug Programs

By Steve Bates

**T**he federal government is stepping up efforts to encourage small businesses to institute drug and alcohol education and testing programs for their employees.

On one front, the Department of Labor is helping the Department of Transportation spread the word about a federal substance-abuse regulation that requires action by numerous small businesses—many of which apparently are not aware of it.

And in the Senate, a bill to be considered this year is designed to make it easier for companies to establish tough policies against substance abuse even if they are not required to do so by federal law.

The initiatives coincide with efforts by the Clinton administration, local governments, business groups, and school districts to demonstrate increased concern about the human toll of substance abuse in the workplace and on the streets.

The Clinton administration has increased national television, radio, and print advertising aimed at curbing drug use among youths and is funding thousands of new police officers for New York City's stepped-up war on drugs and related crime.

The U.S. Chamber of Commerce recently began working with the National Center on Addiction and Substance Abuse at Columbia University, which will conduct a two-year study of the impact of substance abuse on American business. And the Dade County, Fla., school district recently became the first in the nation to say it will test high-school students randomly for drug use.

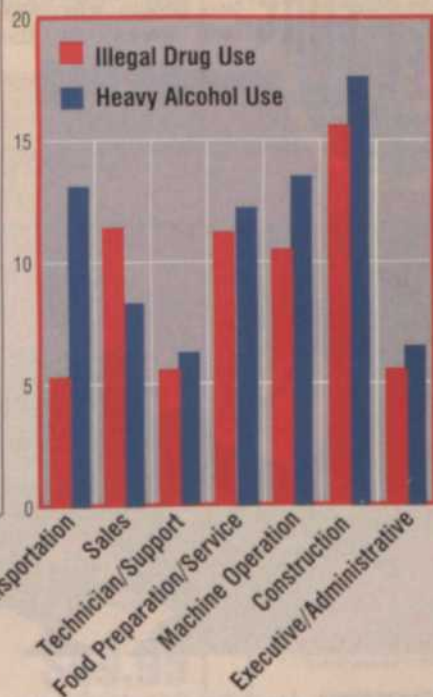
## Testing The Drivers

The federal transportation regulation that many businesses are apparently unaware of covers private-industry workers who hold commercial driver's licenses and, in some instances, includes their supervisors—a total of more than 8 million people. Companies with even one such employee must submit annual reports on required substance-abuse testing activities in general and specific reports on substance-abuse tests after accidents.

Transportation Department officials say they have no estimate of the number of companies that are not in compliance. They

## Substance Abuse By U.S. Workers

Percentages of full-time employees ages 18 to 49 who say they use illegal drugs or consume at least five alcoholic drinks at least five times per month.



SOURCE: U.S. SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES ADMINISTRATION, 1994

have joined Labor Department officials to publicize the regulation. It took effect in January 1995 for firms with 50 or more employees covered by the rule and was expanded a year later to include all firms with employees covered by the rule.

Affected firms must establish a policy on substance abuse in the workplace, train supervisors of employees holding commercial licenses, certify that workers have been educated about drugs and alcohol, and carry out random tests for drug and alcohol use.

"Some of these businesses are difficult to reach," says Mary Bernstein, an official with the Transportation Department's substance-abuse program.

A federal program called Working Partners is encouraging all companies to set up programs aimed at eliminating sub-

*A federal rule on the books and legislation proposed in the Senate encourage small firms to set education and testing policies.*

stance abuse in the workplace, even if they are not required to do so.

"You can have a drug program without drug testing," says Karen Herson Vaughn, a consultant to the Labor Department in the Working Partners program. In addition to providing employers with resources to establish substance-abuse testing, the program gives companies videos and posters detailing substance-abuse symptoms and guidelines for intervention when a worker's performance deteriorates suddenly.

## Impaired Employees

The U.S. Substance Abuse and Mental Health Services Administration, part of the Department of Health and Human Services, reported recently that a nationwide survey found that about 70 percent of illegal drug users hold jobs. About half of those who test positive for drugs on the job indicate that they use drugs daily.

Chronic abusers of alcohol and illegal drugs tend to avoid working for large companies—or get fired from large companies—and wind up at smaller ones, where testing before and during employment is infrequent, researchers say. They add that small companies are the ones that can be affected most severely by the reduced efficiency and increased financial liability that come with impairment of employees.

At the same time, some small-business owners are worried about being sued if they mandate drug tests, officials note.

That concern is behind the proposal by Sen. Michael B. Enzi, R-Wyo., to make it easier for small firms to establish drug-free-workplace programs. The proposal is part of a bill introduced in the Senate that would reform the federal Occupational Safety and Health Administration. The drug-related measure would pre-empt any state law that limits an employer's ability to test workers.

## To Learn More

For further information about the federal regulation and substance-abuse programs, call the Transportation Department's fax-on-demand telephone number, 1-800-225-DRUG (1-800-225-3784), or visit [www.dot.gov/ost/dape/](http://www.dot.gov/ost/dape/) or [www.dol.gov/dol/asp/public/programs/drugs/main.htm](http://www.dol.gov/dol/asp/public/programs/drugs/main.htm) on the Internet's World Wide Web.



## TRAVEL

# Home, Home On The Road

By Peter Weaver

A "home away from home" is what many business travelers look for these days when they have to stay a week or longer at an out-of-town location. To meet the rising demand for home-style rooms and amenities, hotel companies are turning many of their rooms into specially designed extended-stay facilities.

Such accommodations are tailored for business people like Frank Neill, who lives in suburban Philadelphia but works in Fairfax Station, Va. As general manager of WPXW-TV, an infomercial and community-service broadcast company, Neill often has to be away from home for weeks at a time. During those absences, he says, "there's no way I'm going to stay in a regular hotel room with just four walls and a bath."

When he's on the road, Neill insists on having lots of space, including a working area, a separate bedroom, and a full-sized kitchen. He found what he wanted in a Marriott Residence Inn. "I got the space I needed," Neill says, "and the staff makes me feel like a member of the family."

The attention ranges from directing guests' incoming business calls and hosting a day's-end social hour for them to shopping for their groceries. If Neill leaves a list at the front desk in the morning, by evening someone will have stocked all the items neatly in his kitchen. There's no charge for the service—just the groceries.

## Going The Extra Mile

"We put our visitors up at Homewood Suites even though it's farther away than the regular hotels," says Kristi Orth, project administrator with AC Engineering, a product-design consulting firm in Lafayette, Ind. "The suites have separate bedrooms, large refrigerators, and a staff that goes the extra mile to take care of you," Orth says.

An AC Engineering client who signed up for a weeklong software training session was booked into a two-bedroom suite with a large kitchen so that she could bring along her husband and 2-year-old child. "You can't get this kind of homey accommodation at the other hotels," Orth says.

WPXW-TV's Neill says he takes his wife and son along on some trips, especially during school vacation time. "It's great for us in the summer," he says, "because my family

can relax by the pool while I'm working, and we can get together for poolside barbecues that the hotel staff puts on."

Both Neill and Orth say the spacious extended-stay accommodations don't cost more than standard rooms in nearby hotels. At the Homewood Suites in Lafayette, two-bedroom units run about \$130 a night for two people who stay two weeks. At the

*To attract extended-stay guests—those who check in for a week or longer—hotels are creating suites and adding amenities.*

Summerfield Suites are considered top-tier accommodations in the extended-stay hotel business throughout the country. Their rates start at \$65 to \$75 per night, with discounts for stays of a week or longer.

The so-called moderate-tier extended-stay suites, such as Town Place Suites, Studio Plus, Candlewood Suites, and Sierra Suites, charge \$45 to \$65 per night. Some have full-sized kitchens; others have kitchenettes. Not all have separate bedrooms.

TRAVEL TIME



PHOTO: OSWAIN SPENCE

**Almost home:** Amenities for extended-stay guests at Homewood Suites in Lafayette, Ind., are sampled by Craig Woolfington, the hotel's sales director.

Marriott Residence Inn in Fairfax, Va., a one-bedroom suite is about \$90 a night for one person for two weeks. A two-bedroom suite is \$40 more.

"Software companies, computer-technology companies, consultants, and other small businesses like to book our two-bedroom suites when two of their people are traveling together," says Janet Kean, manager of Summerfield Suites in San Jose, Calif., "because it costs a lot less than booking two single rooms at a nearby hotel."

In the heart of Silicon Valley, where hotels serving high-tech business travelers charge \$150 or more per room, a two-bedroom suite at Summerfield Suites costs \$160 a night.

Residence Inns, Homewood Suites, and

## Little Things Mean A Lot

Amenities can become increasingly important the longer you are away from home and office, and one of the most popular is the free buffet breakfast offered by many top-tier extended-stay hotels.

Another popular amenity is the evening social hour offered by some hotels. "We provide light food, beer, and wine [if local regulations permit]," says Tim Bowes, manager of the Residence Inn in Fair Lakes.

Many extended-stay hotels have exercise rooms and saunas as well as laundry rooms.

Some guests like to use the full-sized kitchen to do their own cooking. "On long business trips, you don't want to eat out 15 nights in a row," says Bowes. For guests who don't feel like cooking, he adds, "we



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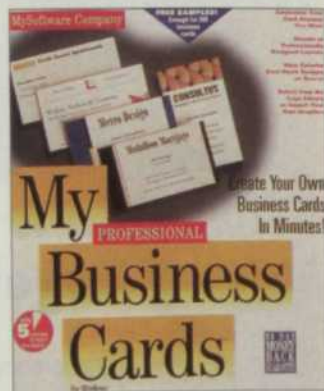
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**Nation's Business**  
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### TRAVEL

have quick-delivery Take-Out Taxi service arrangements with restaurants in the area."

#### Getting Down To Work

Some extended-stay guests turn a bedroom or living room into a work area. "I converted a corner of the living room into a virtual office," says TV-station manager Neill, "with incoming [and] outgoing phones, modem, computer, fax, printer, and files."

Neill and others note that front-desk employees at extended-stay facilities often can serve as receptionists, handling calls and messages.

Other business guests may receive business callers in their suites for meetings or presentations, or they may use the hotel's business center if such a facility is provided. Some Homewood Suites have business centers with libraries containing reference books, says company spokesman John Hawkins.

Some extended-stay hotels have set up direct Internet-access service.

#### Amenity Escalation

Business travelers who use extended-stay hotels can come to expect similar home-away-from-home treatment even at short-stay hotels. Standard hotels now are finding they must provide more amenities and special services for business travelers—even though they may be staying only two or three nights.

That was why the Best Western Eastlight Inn in Peoria, Ill., gutted 72 standard rooms and turned them into 24 three-room, extended-stay suites. Manager Bill Reibel says, "Originally, the building had very low occupancy, and now, with the new suites, we have 100 percent occupancy—we can't convert rooms fast enough."

Even hotels with smaller suites equipped with minikitchens are remodeling to keep up with business travelers' rising expectations. "Our old suites had one room with two beds, a small refrigerator, and a coffee maker," says Greg Fugate, manager of Comfort Suites in Peewaukee, Wis. "We're converting some of the old rooms into suites that have separate bedrooms and full-sized kitchens."

#### Finding A Place To Stay

Lots of space and a specially trained staff are the two ingredients that extended-stay veterans look for when making reservations. But sometimes a hotel's extended-

stay "suite" is just a standard room with a minikitchen and a coffee maker. It's important to have a travel agent or the hotel's reservation office specify the kind of space and amenities you need. This checklist can help when making reservations:

■ Is the bedroom completely separate from the living area? Or is it a sleeping area that's separated by a divider?

■ How big is the kitchen? Ask the reservation clerk to describe it.

■ Is the suite cleaned every day?



PHOTO: T. MICHAEL KEZA

**Pantry stocking** at the Marriott Residence Inn in Fairfax, Va., is overseen by Royden Rodgers, guest-care supervisor.

■ Is there 24-hour front-desk and maintenance service?

■ Does the room have two phone lines, free local calls, and voice mail?

■ What are the special amenities? Examples are free buffet breakfast, evening get-togethers, and grocery-stocking service.

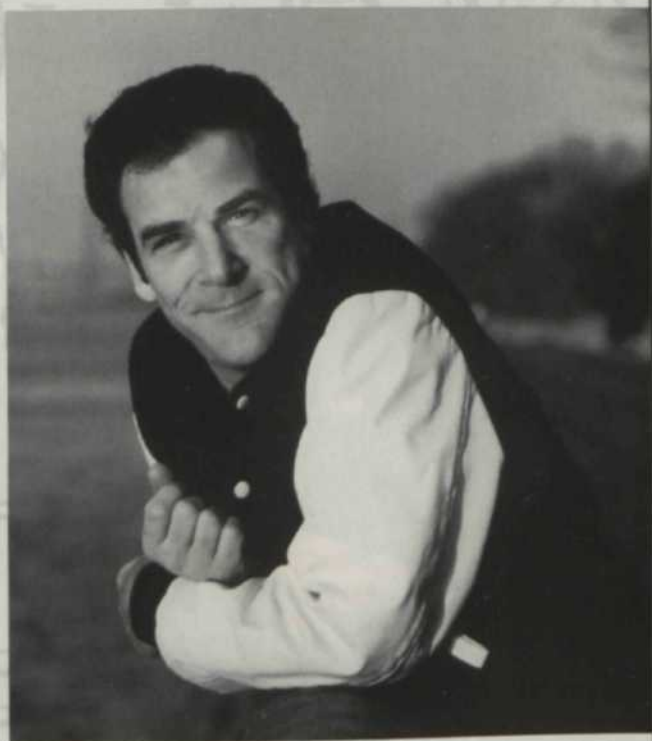
Have the reservation office fax you room diagrams and descriptions plus a list of special services and amenities. An experienced travel agent should be able to get such information for you.

*Consumer Reports Travel Letter* has published two special reports on long-stay accommodations, including chains' names, toll-free phone numbers, Internet addresses (including online booking), sample rates, square footage, type of floor plan, amenities, and business services.

The reports are "What's New in All-Suites" and "Extended Stay Hotels." Another report, "Rent a Cottage, Condo or House," is for business travelers who need living and working space for 30 days or longer. The reports are \$5 each. To order, send a check to CRTL, 101 Truman Ave., Yonkers, N.Y. 10703-1057.



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# Small Business Technology

*Internet-like computer networks called intranets are helping small firms boost productivity and teamwork.*

By Tim McCollum

## The Net Result Of Computer Links

**M**ost of attorney David Beckman's opponents are at a big disadvantage when he steps into the courtroom, he believes. His edge? The information he can reach with his notebook computer.

collaboration, and information management within companies.

Traditional local area networks (LANs)—which allow employees to share printers, modems, and files by connecting their personal computers with cables—are

and scheduling across the network. At their best, intranets boost productivity and encourage teamwork.

"An intranet can help a company become more effective and efficient," says Michael Rudnick, a principal with Cognitive Communications LLC, a Web and intranet consulting firm in New York City. "It's a way for people to share and access information in a paperless way [and] fast."

Nearly half of small businesses in the United States already have intranets, according to International Data Corp., a technology research firm in Framingham, Mass. (IDC/Link is a subsidiary of International Data Corp.)

Mark Levitt, IDC's research manager for collaborative and intranet computing, says intranets are most common in companies that have Web sites.

### An Up-To-Date Database

Beckman & Hirsch began to think about document access via networks even before Web sites and intranets became popular. In 1993, the firm installed Lotus Notes groupware software—from Lotus Development Corp. in Cambridge, Mass.—on its Windows computer network. "We wanted to work together on common projects," says Beckman. "Notes really works well with documents, and [the law profession] is very document-intensive."

Notes enabled Beckman & Hirsch to build a database of client files and records and to provide messaging for attorneys and staff members. Using Notes, attorneys at the firm can make changes and additions to a file, and the software updates the file across the network automatically whenever someone alters it.

The Notes software has security features that protect client files and prevent access by unauthorized parties. To enter the database, attorneys and clients must type in a password, and users can work only on files that they have permission to view.

Two years ago, Beckman & Hirsch added Web technology by installing Lotus Domino Web server software. Domino makes it possible for staff members to tap Notes databases and e-mail using either

used in many small firms. IDC/Link, a research firm in New York City, estimates that there are 12.8 million networked PCs in small businesses and forecasts that there will be 20.7 million next year.

But intranets—essentially LANs with sophisticated applications and capabilities—extend the power of local networks by harnessing the point-and-click technology that underlies the Internet and its World Wide Web. This makes it easy for people using computers to find information and communicate.

Intranets help companies manage documents and information, connect people to the Internet, and facilitate group applications such as e-mail, project management,



PHOTO: CHRIS STEWART—BLACK STAR

*An intranet set up by his law firm enables attorney David Beckman to view documents and other legal resources whether he's in his office or in the courtroom.*

Between court sessions, Beckman uses the modem on his computer to tap almost instantly any of the legal resources at Beckman & Hirsch, his six-person law firm in Burlington, Iowa. These resources include the firm's law library, case files, and relevant law citations. The connection also enables Beckman to send and receive electronic mail.

"If I put a document on my computer at the office, that same document is available in a courtroom," says Beckman. "I can get the information anywhere I am."

Beckman has discovered the power that Internet-like computer networks can give small businesses. These networks, called intranets, facilitate communication,



## SMALL BUSINESS TECHNOLOGY

the Notes client software on their desktop PCs or a Web browser over the Internet when they are away from the office.

Beckman says the intranet has become the backbone of the firm. In addition to e-mail messages and case records, attorneys keep their appointment schedules online; they can check and update them in the office, in the courtroom, or on the road.

In addition, the firm's clients can review depositions and case notes and send messages by logging in to a private Web site over an Internet connection using a Web browser. Beckman says this cuts down on the number of phone conversations and meetings between attorneys and clients.

### Managing Multiple Details

Intranets have the power to transform the way small firms do business by giving them new ways to manage information and communicate, says Rudnick. They are particularly helpful for firms that must manage the details of multiple projects and clients.

Computer software reseller Viable Solutions Inc. in Orlando, Fla., for instance, needed a way for its software engineers to collaborate on network software installations for clients. Because much of the five-person firm's work is done at client



PHOTO: EBEN VAN HOOK

A program that can be shared is a versatile asset for software reseller Viable Solutions Inc., says the firm's president, Eliot Lanes, left, with Carl Fissell, a technical engineer.

sites, employees needed a system that would allow them to send messages and exchange documents by modem.

For the past few years, Viable Solutions has been using a groupware and messaging program called GroupWise, from

Novell Inc. in Orem, Utah. The software runs on the Novell IntranetWare network at the firm's office; the network connects an assortment of PCs, Apple Macintoshes, and servers, plus two mainframe computers. "We do everything through our

## Preventing A Productivity Drain

Many small companies enable employees to communicate among themselves via an intranet before equipping them to communicate with the outside world over the Internet. Yet the gains in communication and productivity that can be achieved by investing in an intranet can easily be lost once employees have the ability to connect with the Internet.

That's because the Internet gives them access to a wide range of time-consuming activities even as it enables them to access business information and resources that the company intends for them to use.

In fact, the prospect of wasted employee time deters some small-business owners from connecting their firms to the Internet. Respondents to the March 1997 Where I Stand poll in *Nation's Business* cited the possibility of lost productivity as a major reason for not letting employees use the Internet.

Entrepreneurs' fears that employees will spend work time playing computer games, downloading software, and visiting non-business sites on the World Wide Web aren't unfounded. The Computer Security

Institute in San Francisco reports that 31 percent of businesses it surveyed cited financial losses from reduced productivity last year as a result of employee misuse of Internet privileges.

"One of the things about giving people access to the Internet is you're putting the largest possible productivity drain onto their desktops," says Mark Peabody, a research analyst with The Aberdeen Group Inc. in Boston. He says many firms that give employees Internet access are discovering the potential for abuse. "A lot of companies are starting to wonder what these people are doing all day."

Gartner Group, a research and consulting firm in Stamford, Conn., estimates that U.S. businesses lose 26 million man-hours a year to online game playing by employees. And Elron Software

Inc., an Internet-security software company in Cambridge, Mass., says that 68 percent of the companies using its Internet Manager software have detected employees surfing to sexually explicit Web sites.

Bill Gassman, a senior research analyst at Gartner Group, blames such personal

use on the newness of the medium: Those who are new to it want to explore. "If people don't learn at home, they're going to do it at work," Gassman says. "It does affect productivity, but it also teaches them how to do things. So ultimately it can lead to higher productivity."

The trick, analysts say, is to tell employees what is and isn't allowed, through an acceptable-use policy. Such a policy should set rules for Internet use and inform employees that their activities will be monitored for abuse. "The biggest thing is to treat employees like adults and tell them what you expect," says Peabody. "Then you put the monitoring in place so you can have a record and prevent abuse."

There are two types of software programs that can help prevent such abuse. One type, network monitoring programs, records traffic on a company's intranet and Internet connection to see how much time employees spend online and which Internet sites they visit.

These programs also allow companies to make specific Web sites off-limits to employees and to restrict times when employees can access the Internet.

Another type, content-filtering software, lets firms block employees from accessing certain Internet sites based on categories such as entertainment, sexually explicit material, and sports.





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## SMALL BUSINESS TECHNOLOGY

GroupWise system," says Eliot Lanes, Viable Solutions' president.

Lanes says the company uses GroupWise to manage client projects, including sales presentations, software documentation, progress reports, and support calls. These include documents that are created on or scanned into a PC, received by e-mail, and downloaded from the company's external Web site. "The document management is huge," Lanes says. "You can find a document no matter what server it's on."

Moreover, the software handles Viable Solutions' e-mail and fax messages, and it ties in to the company's phone system to allow people to receive voice messages and answer and transfer calls from their PCs. The firm even uses the system to manage the Novell networks and GroupWise systems that it sells and installs for its customers.

### Growing Compatibility

The growing use of the Internet has pushed developers of groupware and messaging software such as GroupWise and Notes to make their products more compatible with Internet and Web standards, says IDC's Levitt. Internet compatibility allows people using these programs to share documents with people who use e-mail and Web browsers. Also, employees can use a browser to locate files on the network and launch applications associated with them.

At the same time, Levitt says, Web-based products such as browsers are taking on more of the functionality of groupware programs, including features such as group message boards, scheduling, collaboration, and data synchronization.

Intranets are also pushing software manufacturers to design products with collaborative features. Productivity applications such as word processors, spreadsheets, and contact managers are being tailored to allow people to work together or exchange information over intranets or the Internet. These collaborative capabilities make intranets more useful for small firms.

### Some Assembly Required

Installing a network can be complex. Companies not only must physically link their PCs but also must install software that allows users to work together.

Nonetheless, new network products are making it easier for companies to get their intranets up and running. Most new business PCs come with the devices and soft-

ware that are necessary to connect to a network, and network hardware vendors such as Cisco Systems Inc. in San Jose, Calif., and Intel Corp. and 3Com Corp. in Santa Clara, Calif., have come out with other useful products for small-business networks.



PHOTO: DOUG WILSON—BLACK STAR

**Bicycle manufacturer TiCycles in Seattle has only begun to tap the possible uses for its intranet, says Martin Criminale, the firm's sales manager.**

Meanwhile, network operating-system software such as Microsoft's Small Business Server and Novell's IntranetWare for Small Business are compatible with Internet standards, allowing companies to put together intranets and connect them to the Internet.

Last fall, Seattle-based bicycle manufacturer TiCycles installed a new computer network using Small Business Server and Microsoft's Windows NT operating system to link five PCs in its manufacturing plant and retail store. The new network, which replaced a basic LAN, allows the firm's seven employees to share information and resources faster and more efficiently, says Martin Criminale, the firm's sales manager.

"The network increases access to infor-

mation from every machine," says Criminale. "And the server makes it faster and more reliable" than the old network.

Internally, Criminale says, the intranet provides a conduit for e-mail, sharing files, and scheduling meetings. It also ties into the point-of-sale system in TiCycles' retail store, allowing employees to check quickly whether a particular bicycle is in stock.

But the biggest benefit has been the opportunity for employees to use the network as a springboard to the Internet to communicate with customers and obtain outside information.

Rather than equip each employee's computer with a modem, TiCycles has them share a single modem connection to view e-mail and obtain information from the Internet and the company's Web site, which is hosted by a local Internet service provider. The service provider keeps the Web site on its computers for \$95 a month.

Employees can dial in to the network from home to obtain information or a file, and they can dial in to use applications such as the firm's computer-aided design software—AutoCAD, from Autodesk Inc. in San Rafael, Calif.—which is used to develop the firm's high-tech titanium bicycles.

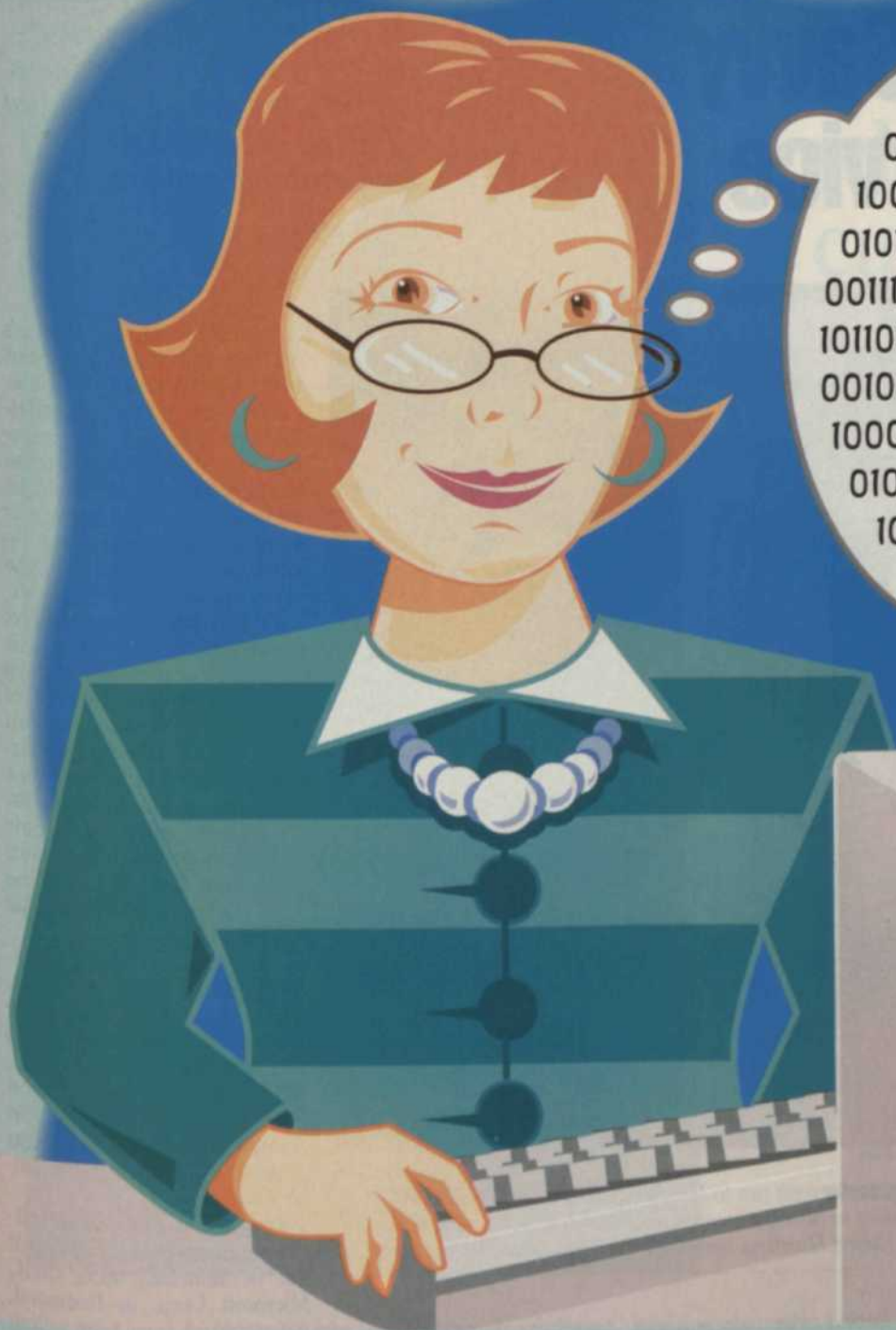
**C**riminale says TiCycles is only beginning to discover uses for its intranet. IDC's Levitt says that's typical of companies that have just launched an intranet. Many firms, he says, start out with e-mail and information sharing and then discover more-sophisticated uses such as accounting, human resources, inventory, project management, and sales-force automation.

Such firms may just be scratching the surface, says Cognitive Communications' Rudnick. He says many companies want to add specific applications such as e-mail rather than use their intranet to improve the way they do business generally.

But to be successful, Rudnick says, firms have to build intranets around specific business objectives and need a direction for how they should be used. And that direction should be communicated to employees.

"The success or failure of an intranet does not depend on the hardware and software," Rudnick says. "People need to know what this thing is and how they can use it. It's about people interacting and what it means to share knowledge in a company. The technology is just a way to do it." ■





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## SMALL BUSINESS TECHNOLOGY

# Computer Savvy At Your Service

By Tim McCollum

**T**he patients may not notice it, but the Harding Nursing Home has gone high-tech.

The nurses and other staff members of the home in Waterville, N.Y., are still there to provide the human touches. But behind the scenes, a network of computers has begun taking care of the information tasks that people used to perform to keep everything running smoothly.

Owner Robert Harding says computers have become a necessity in health-care facilities, where complex information chores must be completed efficiently. These chores include accounting, Medicare and private-insurance claims processing, keeping records on patients, and coordinating information with doctors, hospitals, and government health-care agencies.

"There's been a tremendous increase in the demand for detailed information," says Harding, whose family has run the 92-bed Waterville home for 45 years. "It's become important to have central stores" of information.

Building those centralized databases required an investment in desktop-computer and related network-hardware and software. It also required something Harding knew he lacked: the expertise to link those elements into a system that would run smoothly and reliably.

Like many small-business owners, Harding was reluctant to hire a network professional, whom he might not have been able to keep busy over the long haul. Instead, he contracted with Express Data Products in nearby Utica, N.Y., a reseller of computer equipment made by Hewlett-Packard Co. of Cupertino, Calif.

Thanks to its close relationship with Hewlett-Packard, Express Data was able to install Harding's PCs, network server computer, and tape backup system—all quickly and correctly. The reseller then



PHOTO: SIMKE GREEN/LAR

**A computer reseller with ties to Hewlett-Packard Co. provided the expertise needed to install a computer network at the nursing home owned by Robert Harding, here working with nurse Sandy O'Herien.**

tied the components together using NetWare software produced by Novell Inc. of Orem, Utah.

Express Data also installed productivity software, including an accounting program, and constructed databases of patient records to make them accessible over the network using a software program called Lotus Notes, created by Lotus Development Corp., based in Cambridge, Mass.

Harding says working with Express Data allows him to have ongoing local expertise when it's time to add capabilities to the network or to repair equipment. "They come out and set up the workstations for us, and they are up and running with no real glitches," says Harding. "And if there is a problem, they come out and solve it."

*As technology manufacturers court the small-business market, they're increasingly offering expert advice and suitable products.*

Businesses such as Harding's are becoming an important market for technology manufacturers such as Hewlett-Packard. Although the corporate market enables these manufacturers to make single-customer sales of hundreds or even thousands of PCs and related software and services, the big-company market is limited.

To increase market share, manufacturers must focus on small businesses, says Raymond Boggs, director of small-business research with IDC/Link, a technology-market-research firm in New York City. And those small firms, which are increasing their technology spending at a faster rate than corporations, he says, should benefit from this newfound attention.

**I**n addition to Hewlett-Packard, Apple Computer Inc. in Cupertino, Compaq Computer Corp. in Houston, IBM Corp. in Somers, N.Y., and Micron Electronics Inc. in Nampa, Idaho, have begun aggressive courting of the small-business market.

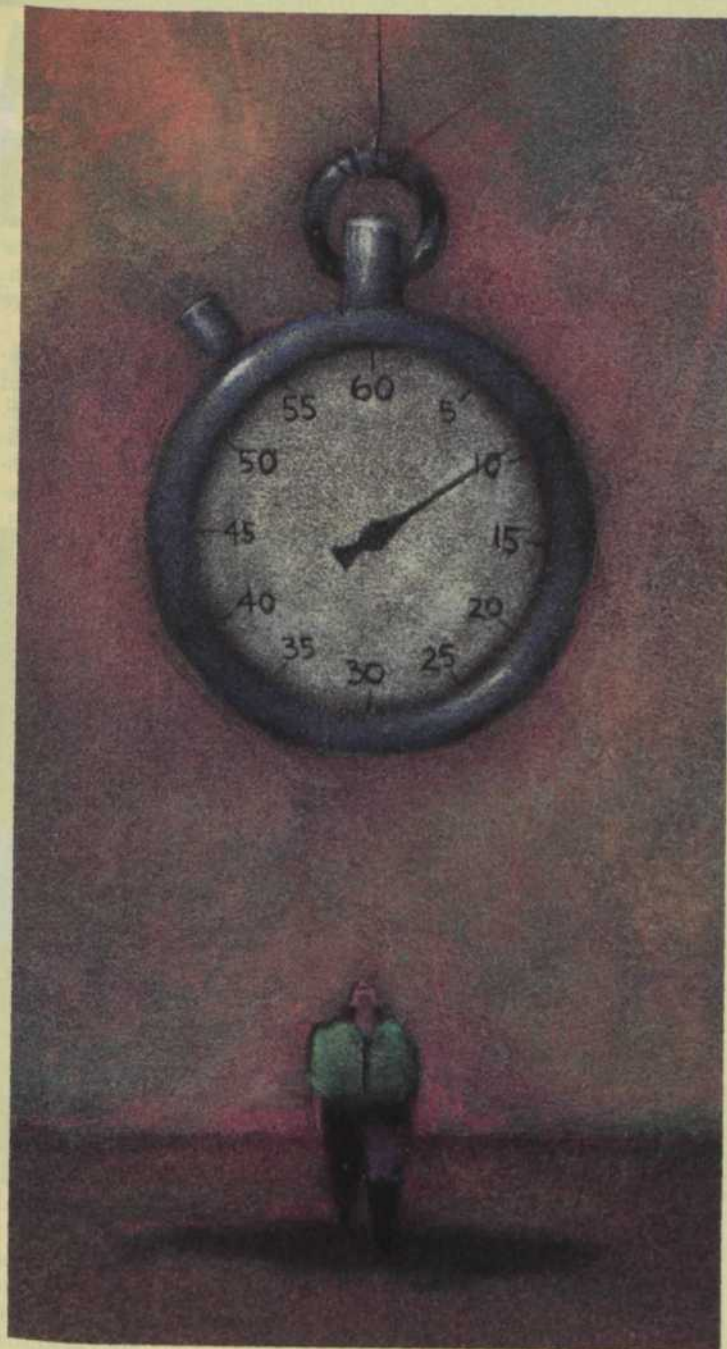
They follow the lead of software companies such as Intuit Inc. in Mountain View, Calif., Microsoft Corp. in Redmond, Wash., and Novell, which have been selling to small businesses for several years.

In the process, all these vendors are learning that small companies have needs that are significantly different from those of big corporations, says Boggs.

For example, entrepreneurs such as Harding usually don't have computer staffs to select and implement new technologies, so they need vendors to provide that expertise. Consequently, service has become a major part of vendors' sales pitches to small businesses.

Some vendors are setting up consulting operations that can respond to customer questions by phone, through the Internet, or more directly through local resellers and consultants. Some are also offering





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## SMALL BUSINESS TECHNOLOGY

products and services engineered with small-business needs in mind.

Hewlett-Packard was one of the first computer companies to take the latter approach. Two years ago, the company introduced a line of PCs designed to be easy for small businesses to install and maintain themselves. It also has created a small-business unit that provides one-stop sales and support for all of Hewlett-Packard's computer and printer products for this market. "Small-business customers want products that are easy to buy and easy to use," says Kim Tchang, Hewlett-Packard's director of small and medium-sized business.

IBM recently took a highly publicized step into the small-business market, as it tries to turn entrepreneurs on to computers and the Internet. Like Hewlett-Packard, it is building its offerings around technical expertise and service.

IBM's ServicePac program, for example, allows entrepreneurs to purchase a fixed number of customer-support telephone calls to IBM technicians with expertise in more than 80 software applications. The company also has assembled a network of IBM experts and independent business partners to help small firms implement technologies for solving business problems.

"Small businesses are really asking for help not just with technology but with business solutions," says Mark Shearer, director of small- and medium-sized-business services for the IBM Global Services operation.

Charlie Kears, general manager of Fess Parker Wineries in Los Olivos, Calif., was one of the first small-business people to take advantage of IBM's initiative.

Owned by 1960s television star Fess Parker, the winery makes premium wines and sells them in stores, through a 6,000-member wine club, and to winery visitors. Kears believed the winery could increase its sales by marketing over the Internet.

Two years ago, he began talking to World Wide Web designers about setting up a site, but he quickly concluded that even maintaining it would be too difficult and expensive a project for the winery. Around the same time, the winery was signing up with credit-card-processing company Payment Processing Inc. in Fremont, Calif. PPT's sales representative put Kears in touch with IBM.

IBM enlisted Kears to help test its Home Page Creator software, which allows companies to create and maintain Web sites with minimal outside assistance. The firm's experts helped Kears put the resulting Fess Parker Winery site on the Internet using the IBM Global Network, an Internet-access service that hosts Web pages of IBM clients. In exchange, Kears provided feedback to IBM about the software.

Kears says he never would have sought help from IBM if someone hadn't suggested

it. "I didn't think of IBM as someone I could go to for help," he says. "I associated them with the Fortune 500. But I found out that they offered small businesses as much help as they offer large corporations."

**S**ometimes a company needs help in transforming the way it does business. Pink Jeep Tours Inc. of Sedona, Ariz., did two years ago, when it overhauled its customer-reservation system.

Pink Jeep, a company that provides guided Jeep tours of Arizona's scenic rock formations, needed a better, more flexible way to handle reservations to help ensure that all of its daily tours were fully booked.

In the past, employees at the 40-year-old

tem, we can make almost instantaneous changes and always see our availabilities at the spur of the moment," Wendell says.

Small firms such as Pink Jeep interest Microsoft because the software giant is eager to sell them products comparable in capability to those used by big companies. But Microsoft is aware that small firms have limited budgets and that their owners and managers have limited knowledge of technology.

Microsoft wants to educate small companies about the benefits of computers and the Internet. It is a partner with the U.S. Chamber of Commerce and several technology vendors in producing 30 one-day technology seminars and expositions for entre-



PHOTO: SCHUCK PLACE

Experts at IBM Corp. helped winery manager Charlie Kears set up a World Wide Web site.

firm typed customers' names, tour dates, and credit-card numbers into a computer terminal. A magnetic board on the wall showed the availability of various tours on a grid. However, that arrangement was time-consuming and made it difficult to keep accurate track of customers' comings and goings, says Pink Jeep owner Shawn Wendell.

Wendell turned to Microsoft to integrate and automate the system. After consulting with a Microsoft-certified programmer and Pink Jeep's in-house computer manager, Wendell chose a reservation system based on Microsoft's SQL Server database software running on a computer network using Microsoft's Windows NT operating system.

Now that the actual programming is done, Wendell says, his staff can tell customers with confidence which trips have openings and can complete the reservation process in about 30 seconds. "With this sys-

preneurs nationwide. (For information on the 1998 schedule, call 201-346-1422.)

The reason for the education push, explains Nigel Burton, Microsoft's director of small business, is that small companies often have stumbled by trying to solve short-term problems with technology. So, he says, they have begun demanding more from technology firms such as Microsoft.

"A lot of businesses have been investing in technology sort of as an act of faith," Burton says. "The industry hasn't done enough to explain why people should adopt technology. We haven't been explicit."

The quality of the expertise and service that technology companies provide may be key to tapping the small-business market. If companies such as Microsoft can succeed, small firms likely will see more technology companies taking a greater interest in their needs.



## MANAGING

# A Wake-Up Call For Companies

By Dale D. Buss

**D**avid Wolkoff doesn't see himself as some sort of sociologically attuned business pioneer. He just wanted to maximize the amount of play on the par-3 golf course that his family's real-estate business was opening in Edgewood, N.Y. "We figured we could get more revenue if we stretched the daylight out, and the only way we could do that was to put lights on the course," he says.

So when Wolkoff, his brother, and his father opened Heartland Golf Park in 1994, they installed 80 stadium-style light fixtures on the 1,000-yard, nine-hole course and made tee times available until 3:30 a.m. Nocturnal golfers began showing up immediately—even though greens fees after 7 p.m. are \$20, double the daytime rate. Now they're coming in droves.

"We do the level of business that a busy, 18-hole regular course does during the summer, but the majority of people play at night here," says Wolkoff. "A lot of people who play just don't have time to leave their jobs during the day. But they can come here, say, on a Wednesday night and get in a round."

A growing number of small-business owners like Wolkoff are recognizing that the traditional eight- or 10-hour workday and the five-day business week have become remnants of the past. The marketplace has shifted into what some observers call "24-x-7"—a milieu in which early mornings, evenings, nights, and weekends are regarded as seamless phases of a new, never-ending business stretch.

The phenomenon is spanning economic life worldwide. Once solely the province of enterprises that predictably operated around the clock, such as hospitals, truck stops, and emergency plumbing services, the around-the-clock economy now influences nearly every type and size of business. It is providing a launching point for some trailblazing entrepreneurs, tempting opportunistic owners of existing companies, and forcing still other small-business owners to adapt—or lose ground.

"It's being pushed and driven by a whole



PHOTO: STEVE SOBOLSKY-BLACK STAR

*Offering late-night tee times at his family's golf course was no shot in the dark for David Wolkoff.*

bunch of factors, and there's no way to stop this movement to a 24-hour-a-day basis," says Bill Sirois, vice president of Circadian Technologies Inc., a Cambridge, Mass.-based consulting firm that helps companies make the transition.

Several imperatives have converged to produce the shift:

■ Cycle compression is sweeping through business, accelerating deadlines. And tech-

*The emergence of an around-the-clock economy spells opportunity and a need for adaptability among small firms.*

nologies such as fax transmission, voice mail, and the Internet have enhanced the ability to communicate at any time.

■ In manufacturing, the ceaseless search for efficiencies and the high cost of adding capacity are compelling many small companies to squeeze more out of existing facilities by adding second and third shifts. They gain in sometimes unexpected ways, such as avoiding costly weekend shutdowns.

■ Time-starved American consumers, in their desperate search for convenience, are demanding all sorts of products and services outside the bounds of traditional availability. Why else would a bookstore stay open until 11 p.m.?

Here's how small companies make their way in the 24-x-7 economy:

## Recognize the opportunity.

CorporateFamily Solutions has prospered by providing workplace child care and other family-support services to Fortune 500 companies.

So when Saturn Corp. and Toyota Motor Co. wanted to establish 24-hour care for children of second- and third-shift workers at the companies' Tennessee auto plants, Nashville-based CorporateFamily Solutions stepped up to the plate.

"Businesses now have to put their supports in place even during non-traditional hours to help them get as productive a work force as possible," says Marguerite Sallee, president and CEO of the company, which grew to revenues of about \$75 million in 1997 from \$10 million five years earlier. "And we have to align our work with the needs of our corporate customers."

Nearby, Wright Travel Inc. also has established a foothold in the sleepless economy by staffing its office at Nashville International Airport 24 hours a day. Some executives make reservations at night, says Pam Wright, who founded her Nashville-based agency in 1981 and now has 30 offices nationwide. "Plus, there are more Internet bookings, which we take care of at night."

Thomas Bollum started AnyTime Access Inc. in Sacramento, Calif., as a consumer-



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Small firms are under increasing pressure to develop better products faster just to remain competitive; here are steps that companies can follow to quicken the pace.

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## MANAGING

loan call center in 1989. The firm provides around-the-clock consumer-loan services via phone and the Internet to small banks and credit unions around the country. By 1995, revenues had reached \$400,000. Then he got lenders to hot-link their World Wide Web sites to AnyTime's, and as the institutions' Internet loan applications exploded, so did Bollum's revenues. They quadrupled last year. This year Bollum expects to click across the \$8 million level with 200 employees, up from 15 employees in early 1996.

"Many consumer-loan providers [say] they'll get back to customers within two to four business days simply because no one is available in the office on Friday night," Bollum says. "But we are, and we can get back to them 24 hours a day."

tronic mail in the middle of the night, then so are you," says Allison Abraham, president and co-owner of OnCart Inc., a Lombard, Ill.-based service that home-delivers groceries. In December, she came back from a one-day business trip to Dallas and found more than 200 new e-mail messages awaiting her.

OnCart began taking orders via the Internet in its six major metropolitan markets early in 1996, and online orders already account for about half of sales as overall revenues have surged to more than \$10 million annually. "We're finding a tremendous number of people ordering groceries at midnight, and we have to be there for them," she says.

But it's not just the Internet. The digital-

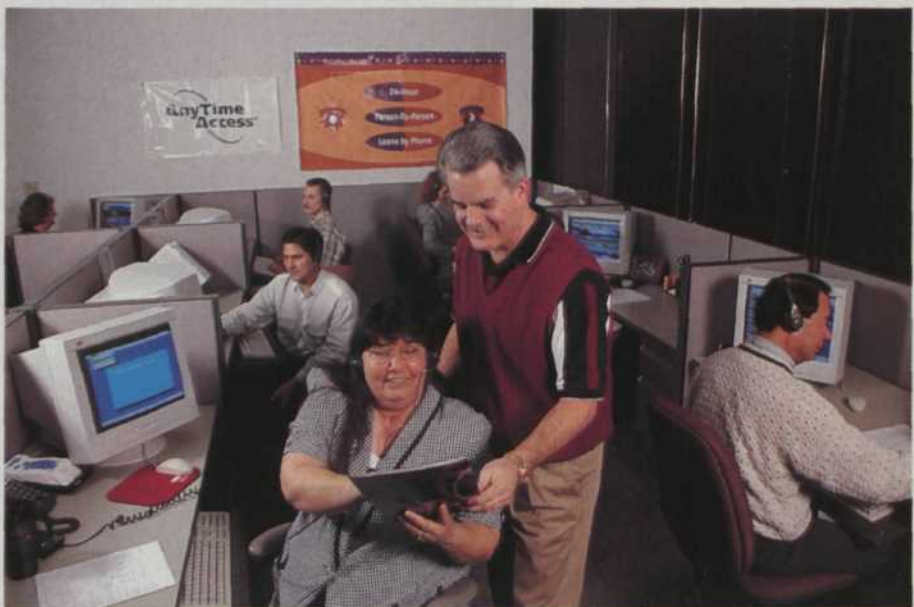


PHOTO: GILDA SUE SCOTT

The name says it all at Thomas Bollum's AnyTime Access Inc., where employees such as Debbie Ryes provide around-the-clock consumer-loan services via phone and the Internet.

Pathology Laboratories Inc. in Toledo, Ohio, serves medical providers near the Ohio-Michigan border. In part because doctors' offices are extending their hours to accommodate patients who are working longer days, the independent lab two years ago switched to around-the-clock service from its previous format of 10 hours each weekday and four on Saturday.

The move allowed the company not only to serve its customers better but also to distance itself from competitors. Since then, says the company's laboratory manager, Karen Smith, Pathology has grown to employ 165 people, or double its payroll of two years ago, and sales exceed \$20 million.

**Pay attention to the microchip.** The Internet is transforming Americans' notions of time in many ways.

"Customers expect that if they're on elec-

tronic mail in the middle of the night, then so are you," says Allison Abraham, president and co-owner of OnCart Inc., a Lombard, Ill.-based service that home-delivers groceries. In December, she came back from a one-day business trip to Dallas and found more than 200 new e-mail messages awaiting her.

"But today, with faxes and e-mail, I never meet 40 percent of my customers. And the urgency created by the capabilities of the technology means that often we actually are turning out signs for tomorrow," adds Scheller, whose firm employs 14 people and brought in \$750,000 in revenues last year.

"And turning it around in 24 hours has become the norm, not the exception. We've developed a strong client base that has come to expect that kind of performance."



**Go globe-trotting.** When Patrick Cox wanted to spin off a new business from his family's Maryland-based typesetting company a couple of years ago, he decided to use a 24-x-7 business model. "The advent of the Internet would allow us to exchange information so easily that we decided to locate our labor force where it would be most cost-effective, anywhere in the world," Cox says.

He ended up calling the company Asia Prepress Technology and situating its keyboarding operation in the Philippines, at the old U.S. naval base in Subic Bay.

About 150 people work on three shifts there, communicating constantly with a small number of supervisory and technical-support staffers at the company's Glen Burnie, Md., headquarters.

"What we do is the first phase of a book, so we have to stay on schedule," Cox says. "Having people available on both sides of the world 24 hours means we can respond to our mostly American customers immediately, no matter when it is."

#### Be available ... now!

Much of business today simply can't wait, and companies that specialize in responsiveness—any time of day or night—are prospering as a result.

For example, WBK Design, a Cincinnati marketing-services firm, is on call to provide creative product, packaging, and advertising concepts on an overnight basis to Richard Saunders International. Twice a month, Saunders International, in Newtown, Ohio, hosts executives of large-company clients for intensive, two- or three-day strategic-marketing sessions.

Following an afternoon and evening of brainstorming with the client and prioritizing ideas, Doug Hall, owner of Saunders International, meets with the WBK staff at around 10 p.m.

By 11, WBK's designers are into a coffee-stoked night of turning out ideas that by 6 the next morning will be rough-hewn but ready for presentation to Steve Klein, senior vice president and managing director of WBK. By 2 p.m., WBK's ideas are ready for Hall to share with his clients.

"It's part of the speed-to-market philosophy that good companies have adopted now," says Klein. "We focus all our energy at once on one project, which means you can do it quickly—and you get three times as much creative [content as you would] if

you were trying to do the project over a longer period of time along with projects for three other clients."

**Keep the equipment running.** Management consultant and business futurist Roger Herman, whose firm, Herman Associates, is based in Greensboro, N.C., says that much of the growth in the 24-x-7

7 tidal wave is without difficulties. All-night retailers, for example, face some logistical challenges. "You used to lock the place up, and whatever your employees did after hours wouldn't be disturbing anyone; now, how can you stock shelves without blocking customers?" says consultant Herman.

It costs Pathology Labs an extra \$500,000 a year for security guards and electronic cameras because the facility it leases is now open 24 hours a day, Smith says.

And Davis is convinced that Accent Tag & Label's second and third shifts aren't as productive as the first. "You'd think you'd get better production because there aren't the interruptions there are during the daytime that often force you to pull stuff off the presses," she says. "But I think production isn't as good because the principals aren't there at night. It's just human nature."

Sirois says that some drop-off in human efficiency is natural at night. "Mother Nature programmed us to be active by day and sleep by night, and to make sure that happens, she literally shuts our system down into a state of semihibernation at night," he says. "That puts [all-night production]

at risk in terms of costs and liabilities."

To avoid problems, he suggests, second- and third-shift scheduling should be kept consistent over relatively long periods.

If your company isn't part of the 24-hour economy today, it may be in the future.

Much of the 24-x-7 phenomenon simply amounts to Americans trying to cram more work, more errands, more play, more child rearing—more of everything—into hours that remain only 60 minutes long, says Circadian Technologies' Sirois.

"Rules for businesses that aren't 24 hours today are being rewritten by consumer needs, and they aren't necessarily in keeping with institutional desires," says Bollum of AnyTime Access Inc.

"To the consumer, the concept of 'business after hours' doesn't exist anymore," according to Bollum. "They want it anywhere, any time, and they're much more concerned about access and convenience than price. Consumers don't care how big you are; they're concerned that on weekends or nights when they want you, they can find you."



PHOTO: GUM CALLAWAY

At marketing-services firm WBK Design, the managing director, Steve Klein, right, and art directors Kindra Bolsinger and Steve Glaser focus on one project at a time to come up with ideas for clients overnight.

economy is in manufacturing. "It's cheaper to hire people to work extra shifts than to buy more capital equipment and more space," he says, "and more companies are coming to that decision."

Sirois of Circadian Technologies says a manufacturer can save up to 40 percent on the cost of identical output by going to a three-shift, seven-day week.

A few years ago, Dixie Davis was facing a decision on whether to spend \$1 million to double the size of the printing operation of Accent Tag & Label, a company she founded in Des Moines, Iowa, in 1987. Overall sales were \$2 million a year, so it would have been a big commitment.

Instead, Davis decided to run three shifts in her existing facility—a decision that paid off. "We're able to take care of the client base we started with, plus add a 25 percent increase in production and stay just about where we were in terms of [equipment-maintenance] costs," says Davis, whose company now has sales of \$4 million a year.

#### Be aware of potential problems.

None of this is to say that joining the 24-x-



## MANAGING

# Small Firms Flock To Quality System

*Certification under the ISO 9000 international standards isn't cheap or easy to obtain but is increasingly in demand.*

By Harvey R. Meyer

**A**fter nine months of nose-to-the-grindstone work and more than \$50,000 in related expenditures, LabChem Inc. finally attained ISO 9000 certification—verification that it had met widely accepted international quality standards—in January 1994. The Pittsburgh-area company threw a celebratory bash, a cookout that featured a brief congratulatory speech from Mike Semon, vice president of the specialty chemical manufacturer with 25 full-time employees.

"It was like winning our Stanley Cup," says Semon proudly. "And it was a relief that was almost unbelievable."

Such merrymaking over achieving ISO 9000 certification (also called registration) has become commonplace across the country in a wide variety of industries, including service firms. And unlike a few years ago, midsize and large companies are no longer the predominant businesses attaining the ISO standards.

Lots of smaller companies are climbing aboard the ISO 9000 bandwagon, often proudly proclaiming the achievement with banners and plaques.

"The pressure for companies to become ISO 9000-certified is absolutely increasing and will continue to increase," says Colin Gray, president of Cavendish Scott, a Wellesley, Mass., ISO 9000 management consulting firm. "The question many smaller companies have to ask is when, not if, they [will] get ISO 9000-registered."

Gray's assessment is backed up by statistics: At the end of 1993, there were 2,232 ISO 9000 registrations in the United States. (Registrations are given for quality systems, not companies, so one firm may own several registrations. However, an estimated 70 percent of the registrations represent single companies.) The number of registrations now stands at about 17,000.



PHOTO: SCOTT GOLDSMITH

**It took months of work by employees, including Bill Covey, left, and Greg Keener, for chemical manufacturer LabChem Inc. to achieve ISO 9000 certification.**

A 1993 survey by *Quality Systems Update (QSU)* newsletter of all registered firms found that half of the companies had annual sales of \$100 million or less. Three years later, a follow-up survey found that 58 percent of the registered firms had sales of \$100 million or less, says Paul Scicchitano, executive editor of *QSU*, which is published by The McGraw-Hill Cos. in Washington, D.C.

"The growth among smaller firms seeking ISO 9000 registration the past several years has simply been phenomenal," says Peter Lake, president of SRI Quality System Registrar in Wexford, Pa. "Everyone, it seems, is aware of it. For years, many smaller firms were still becoming educated on what ISO 9000 was." Lake's is one of dozens of U.S. firms that evaluate companies' quality systems for conformity to ISO 9000 standards.

## Background On The Family

Despite ISO 9000's obvious recent popularity, some smaller firms are still uncertain about what it is—and isn't. Here's a brief look:

ISO 9000 is a family of international standards for quality management and quality assurance that applies equally

to manufacturing and service organizations.

The International Organization for Standards (ISO) in Geneva introduced ISO 9000 in 1987 to ensure an international consensus on the essential features and language of a quality system within a business or organization, to facilitate worldwide trade, and to minimize the need for on-site vendor visits or audits.

It is estimated that more than 100 countries have adopted ISO 9000 as their national standards.

The standards do not certify the quality of a product or service. Rather, they attest that a company has fully

documented its quality-control processes and consistently adheres to them. If that's done, quality products and services generally follow.

A company can choose to be certified in one of three sets that make up the ISO 9000 series. ISO 9001 is the most comprehensive, specifying requirements for product design, development, production, installation, and servicing. ISO 9002 provides a model for quality assurance in production and installation, but not for a design function. ISO 9003 covers only final inspection and testing.

Originally, many firms sought ISO 9000 certification because they believed they needed it to sell in international markets, particularly European countries. That concern turned out to be exaggerated, although many European companies still require high-quality suppliers.

What has evolved into a major factor for seeking registration is peer pressure: More companies and their competitors are registering. Additionally, many U.S. companies, especially large ones, are expecting enhanced quality from their suppliers.

Indeed, the 1996 *QSU* survey revealed that 83 percent of responding companies were encouraging or considering encourag-



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**1. Age**

- |                                   |                                |                                |                                |                                |                                |
|-----------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| <input type="checkbox"/> Under 20 | <input type="checkbox"/> 20-24 | <input type="checkbox"/> 25-29 | <input type="checkbox"/> 30-34 | <input type="checkbox"/> 35-39 | <input type="checkbox"/> 40-44 |
| <input type="checkbox"/> 45-49    | <input type="checkbox"/> 50-54 | <input type="checkbox"/> 55-59 | <input type="checkbox"/> 60-64 | <input type="checkbox"/> 65-69 | <input type="checkbox"/> 70+   |

**2. Your current primary vehicle:**

Year \_\_\_\_\_ Make \_\_\_\_\_ Model \_\_\_\_\_ Own \_\_\_\_\_ Lease \_\_\_\_\_

**Your current secondary vehicle:**

Year \_\_\_\_\_ Make \_\_\_\_\_ Model \_\_\_\_\_ Own \_\_\_\_\_ Lease \_\_\_\_\_

**3. When do you plan to acquire your next vehicle?**

- ☐ This week   ☐ This month   ☐ 1 to 3 months   ☐ 4 to 6 months   ☐ 7 months to a year   ☐ Over a year

**4. How do you plan to acquire your next vehicle?**

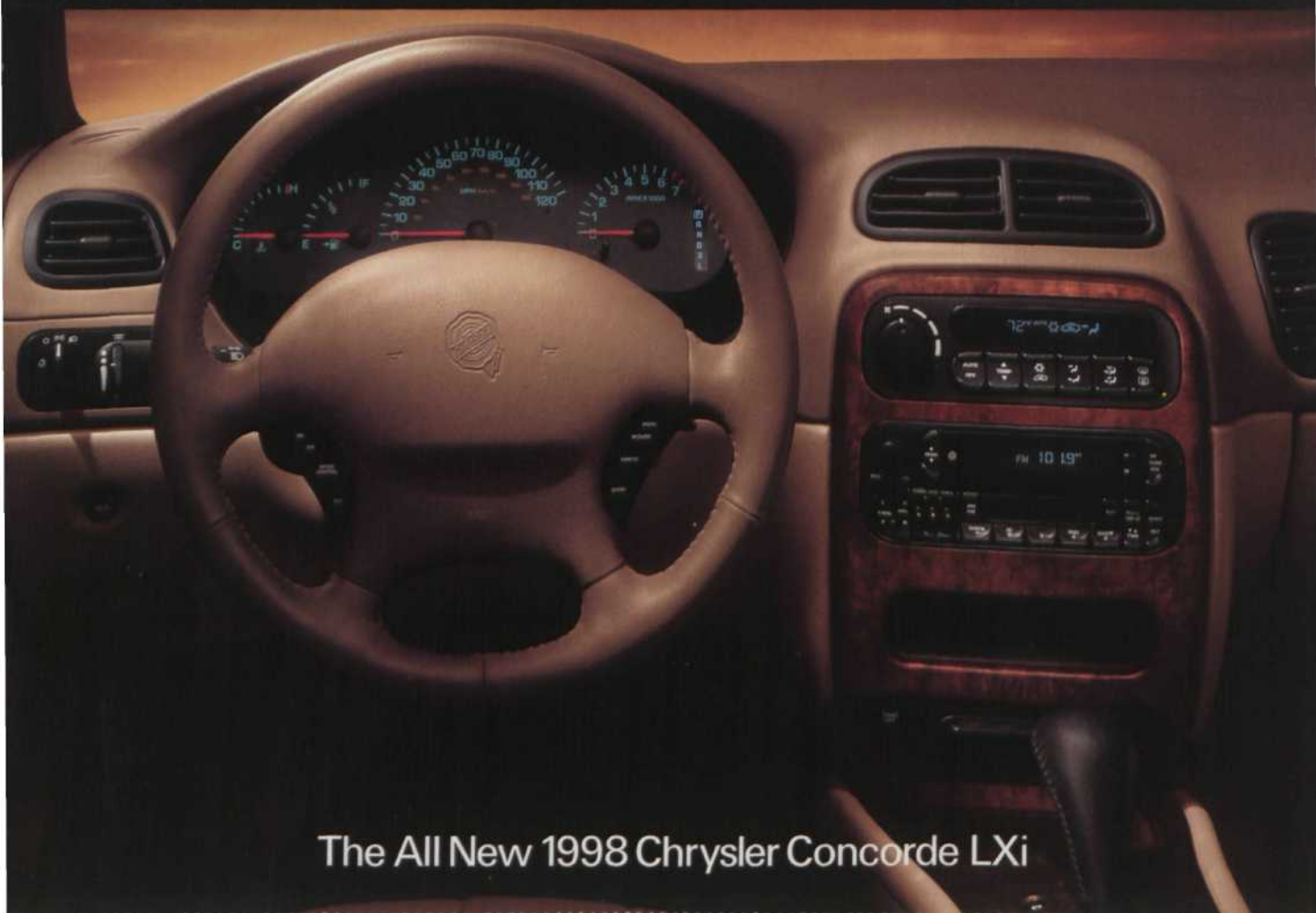
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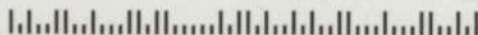






PHOTO: SPAN F. GERO

**Earning ISO 9000 certification** has opened doors to new customers for Frank Havelock's firm, Arizona Calibration and Electronics Corp.

ing some or all of their suppliers to seek ISO 9000 registration.

### Strong Incentives

"A big reason we sought certification was because 3M notified us it [preferred] its vendors to be ISO-certified," says Nancy Peck, quality-assurance manager for ISO 9001-certified Sub-Tronics, a 25-employee Stacy, Minn., manufacturer of transformers and magnetic devices. "Since 3M was a big customer of ours and had been for years, we didn't want to lose them."

Jean O'Connell, 3M's director of corporate quality, says that 3M, which has about 80 percent of its own manufacturing and service sites ISO 9000-certified,

doesn't require its suppliers to be ISO-certified. But O'Connell said certification gives 3M abundant confidence in the consistent quality of suppliers' systems and raw materials.

Arizona Calibration and Electronics Corp., an eight-employee Peoria, Ariz., firm that repairs and calibrates electronic and mechanical-testing equipment, lost a customer in 1995 because it wasn't ISO 9000-certified. Like many firms, the company sought registration not only to attract customers but also to improve quality and morale and reduce product-liability risks.

"We lost that one customer to a competitor," says the firm's president, Frank

Havelock, still stung by the rejection. "It wasn't that big a customer, but it hurt our pride more than anything."

Without question, ISO 9000 certification helps to open doors to new customers and retain existing ones, says Semon of LabChem. He estimates that the ISO designation has allowed him to discuss his company's products with perhaps 40 percent more customers than before LabChem became certified.

Havelock, who touts his firm's ISO 9000 certification in brochures, Yellow Pages listings, and letterheads, says: "We're getting a lot of new interest all of a sudden from people we didn't even know existed."

Another apparent external benefit is that venture-capital firms are beginning to take notice of ISO 9000-certified firms, says Jeffrey Bass, director of strategic business planning and business-advisory services for Margolin, Winer & Evens, a Garden City, N.Y., accounting and consulting firm.

Bass says, for example, that technology firms whose products have global applications are more appealing to investors if they are ISO-registered, because ISO facilitates international trade.

There are many internal advantages of ISO 9000 certification, apart from the obvious quality improvements in operations. The 1996 QSU survey showed that 95 percent of respondents had derived internal benefits, with 83 percent citing higher quality awareness among workers.

Since becoming ISO-certified in August 1996, Arizona Calibration has observed another major benefit of becoming a preferred supplier. Some customers' three-hour audits of company operations have shrunk to one hour, saving both parties time, money, and headaches.

"If you don't have quality at a certain

## A Few Pointers

If your small company is pondering whether to pursue ISO 9000 certification, the following pointers may save you money, time, and effort.

First, though, an important question: Do you really need to be ISO 9000-certified?

You should seek such certification for a good business reason—not because it's a trendy thing to do, says Paul Scicchitano, executive editor of *Quality System Update*, a newsletter covering ISO 9000.

Perhaps your company can get by with simply being ISO 9000-compliant. That means it is ISO 9000-like in its training, procedures, and systems but hasn't pur-

sued the sometimes costly and time-consuming registration.

If you've determined that you're ISO 9000-bound, however, take these steps:

- Read up on the ISO 9000 process (see the resources list on Page 68), in part to help you determine where you stand in meeting the standard's requirements.

- Early on, you should inform your employees of how your plan to seek certification will affect them. Let them know that training will be provided for the required documentation, internal audits, and corrective-action procedures. Employee and top-management support for the certification effort is important during the registration process.

- Consider hiring a consultant. An ISO 9000 adviser could give you a rough sketch of the registration process and

help you get started. Or the consultant could counsel you through the entire process, writing the company's quality policy statement and even specific operating procedures.

- Though in-depth documentation of your operating procedures is one of ISO 9000's hallmarks, strike a balance among obsessively writing down every employee's task, offering training for the work, and letting common sense dictate how a task is to be performed.

- As with consultants, select an ISO 9000-accredited registrar with small-firm experience who is compatible with your management, who preferably is accredited in your industry, and whose credentials are accepted by foreign customers. Also, don't hesitate to negotiate price with a registrar.



## MANAGING

level, you can't enter the marketplace," says Semon, who, like many small-company executives, was initially skeptical of ISO. "ISO brings you a step above that level."

**Weighing The Costs**

ISO 9000 does have its critics. Some contend that achieving certification is prohibitively expensive, especially for a small firm. Others complain that the registration process consumes too much time and manpower.

According to the 1996 QSU survey, the average cost for small businesses (those with \$11 million or less in annual sales) to become ISO-certified was \$71,000—\$51,000 for internal expenses such as training and implementation and \$20,000 for external expenses such as hiring a consultant, registrar, and outside trainer.

Implementing ISO also consumes time—if it's done right. The 1996 survey found that, on average, it took 15 months from the time senior company managers committed to ISO until the final audit was passed—about three months longer than was found in the 1993 survey. The longer implementation time may be a result of more firms realizing they can't take qual-

ity shortcuts, says QSU's Scicchitano.

At Sub-Tronics, ISO implementation took about 18 months, or the equivalent of quality-assurance manager Peck working full time on the project for six months.

Many say ISO's exacting documentation requirements gobble up time. Indeed, there are horror stories about companies losing substantial business because a documentation obsession redirected their priorities. (Several ISO 9000 consultants say that additional documentation is advised when improved control over a company procedure promises savings of time and money.)

"You don't want to become such a slave to your documentation system that you fail to see the big picture," says James R. Evans, director of the Total Quality Management Center at the University of Cincinnati and a quality-management author. "You need a good balance between

**"Don't become such a slave to your documentation system that you fail to see the big picture."**

—James R. Evans,  
University of  
Cincinnati

having a good system and procedures and a longer-term strategy that also examines your leadership and entire management system and has a clear focus on customers."

ISO's emphasis on documentation can be a headache, but the step-by-step reviews of company procedures, along with preventive and corrective actions, often tease out time- and money-saving improvements previously overlooked.

Although ISO doesn't cover all company functions, such as finance, a firm's internal ISO auditor can still seek ongoing

improvements in a variety of areas, such as purchasing, production, sales, engineering, customer service, and shipping.

According to the 1996 QSU survey, 53 percent of responding firms credited ISO 9000 certification with improving internal communications. Four in 10 companies cited increased operational efficiency and productivity, and one in five experienced reduced expenses for scrap and reworking.

At Arizona Calibration, for example, all of some 3,000 equipment-calibration manuals are now filed alphabetically and by manufacturer and model. Before certification, there were times when workers thought that the company either didn't have a specific manual or that it had been lost or misplaced, and another \$400 manual would be purchased unnecessarily.

Sub-Tronics' Peck notes that since the company became ISO-certified, "there's more interaction between workers, for example, on which procedures work best, and more clarity on goals." She says workers' heightened attentiveness spills over into safety and other areas. "And we have a more rigorous training program."

**D**espite some initial ISO-inspired headaches, Peck, Semon, and others are convinced of ISO 9000's long-term payoff. Peck is confident that her company has the credentials and wherewithal to go toe to toe with any firm in the world in her industry. For Semon, ISO's external and internal value cannot be overstated.

"There will be some firms that won't need ISO 9000 certification," says Semon. "But for many firms that don't have it, they should ask themselves one question: 'Do I want my company to be in business five years from now?' It's that important." ■

Harvey R. Meyer is a free-lance writer in St. Louis Park, Minn.

## Information Sources

There are many sources of information on the ISO 9000 certification process. Here are some of the most useful:

**The American National Standards Institute**, an organization that seeks to enhance the global competitiveness of U.S. businesses by promoting voluntary consensus standards, offers various research, education, and training services. You can contact the institute at 11 W. 42nd St., New York, N.Y. 10036; (212) 642-4900. Its site on the World Wide Web is at [www.ansi.org](http://www.ansi.org).

**The American Society for Quality**, formerly the American Society for Quality Control, offers quality-standards-related magazines, journals, books, software, courses, and conferences that often cover the ISO 9000 standards. You can contact the organization at 611 E. Wisconsin Ave., Milwaukee, Wis. 53202; 1-800-248-1946. Its Web site is at [www.asq.org](http://www.asq.org).

**The McGraw-Hill Cos.** has a wide range of publications, including the *Quality Systems Update* monthly newsletter (\$345 per year), *The ISO 9000 Handbook* (third edition, edited by Robert Peach; \$80), and other materials that cover ISO 9000 and other quality standards. Contact McGraw-Hill at 4401

Connecticut Ave., N.W., Washington, D.C. 20008; 1-800-773-4607. QSU has a Web site at [www.qsuonline.mcgraw-hill.com](http://www.qsuonline.mcgraw-hill.com).

**The University of Wisconsin-Stout's EDA University Center** provides many ISO 9000 resources and moderates a widely used ISO 9000 Internet discussion site. People wishing to participate in the discussion can be directed to the site by sending an electronic-mail message to [jennejohn@uwstout.edu](mailto:jennejohn@uwstout.edu). The mailing address is the University of Wisconsin-Stout's EDA University Center, attn: Nancy Jennejohn, 103 First Ave. W., Menomonie, Wis. 54751. Or you can call (715) 232-2397.

Two of the most popular of the dozens of books on ISO 9000 are:

*Using ISO 9000 for Better Business: Using ISO 9000 as a Foundation for Total Quality Management*, by Jack E. Small. Available from Lanchester Press, Box 60621, Sunnyvale, Calif. 94086; 1-800-247-6553; \$24.95.

*Randall's Practical Guide to ISO 9000 Implementation, Registration and Beyond*, by Richard C. Randall. Available from Addison-Wesley Publishing, 1 Jacob Way, Reading, Mass. 01867; 1-800-822-6339; \$39.76.



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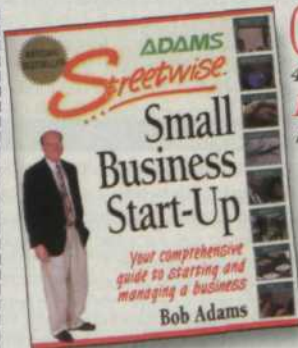
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# Family Business

*The past as prologue; defining the mission; arranging a graceful departure.*

## OBSERVATIONS

### Timeless Insights Through Oral Histories

By Sharon Nelton

The past several months have brought me in contact with several long-lost friends. It had been 35 years or so since I lost touch with one of them, Joella Werlin. Joella and I knew each other when we were thrown together as roommates during a summer course at Radcliffe College in Cambridge, Mass.

This time it was family business that made the connection for Joella and me.

Joella, an oral historian, has her own company, Familore (from "family lore") in Portland, Ore. Because she sometimes works with family-owned companies, she turned for guidance to a friend of mine, Kay B. Wakefield, a Portland attorney who specializes in family business. Somehow, my name came up in one of their conversations, and Joella wondered if I was the same person she roomed with so many years ago. Kay called me, and the link was made.

Joella recently interviewed Kay for Familore's newsletter, exploring how a family-business history can support succession planning. Kay said an oral history can help members of a family business communicate

with one another not only in the present but also down through the generations.

"An oral history is a way of unlocking and making explicit what is implicit in families," she told Joella. "Families mistake frequency of contact with communication on important issues."

An oral history, she said, can help members of succeeding generations understand how their business was founded and what the struggles of the founders were, and it can offer other stories that help explain the family and the business.

But a family history based on oral narrative is informal and subjective, Joella noted. "Wouldn't that be suspect as any grounds for sound business planning?"

When you disclose your history, you disclose your values, Kay replied. And business founders and family members sometimes don't know how they feel about certain issues until someone like an oral historian asks them the right questions.

Most of the clients who go to Kay for help with estate or succession planning, she said, "do not lead with money; they lead

with family. How can they best serve the family and relationships that are important to them? They want their estate plan to be in sympathy and service to that."

The easiest part of a succession plan, Kay added, is transferring the hard assets; the most difficult part is transferring leadership and values. "An oral history," she said, "is a way to help families transfer what is important to them."

You can pull together the story of your family business yourself or work with a personal historian, said Joella, who conducts workshops called "Getting Started." Either way, steps include assembling basic documents such as a simple genealogy, biographies of family members, a chronology of key events, photos, letters, and other items. The process includes taped interviews with one or more family members reflecting on their memories.

For more information, you can contact Joella Werlin at Familore, 705 N.W. Winchester Terrace, Portland, Ore. 97210; (503) 224-7973. And who knows? Maybe my old friend will become your new one. ■



PHOTO: T. MICHAEL KEZA

## PLANNING

### Why Continue Your Family's Business?

By Craig E. Aronoff and John L. Ward

*The family business means so much more to me than the money. In fact, I'm told by lots of people that I'd be better off if we sold the business and I got the independence and pleasure from my share of the proceeds. Obviously, they just don't understand family business.*

That statement from a second-generation family member who isn't even employed in her family's business describes best the motivation of those who successfully and deliberately pass their businesses to the next generation. The sense of purpose they feel for the business exceeds personal economic returns.

The families that are most committed to the continuity of their family businesses share three characteristics:

- They believe that owning the business helps serve their families' missions.

- They are proud of the values exemplified by the business.

- They believe that the business is contributing intrinsic value to society.

Families that are unable to achieve multigenerational continuity often have what we call "negative emotions." Some fear that selling the business would spoil family members who received the financial proceeds. They try to keep family members' wealth tied up in the business. Such



Craig E. Aronoff, left, holds the Dinos Chair of Private Enterprise at Kennesaw State University in Kennesaw, Ga. John L. Ward is the Ralph Marotta Professor of Private Enterprise at Loyola University Chicago. Copyright © by the Family Business Consulting Group, Inc.







## FAMILY BUSINESS

fragile family trust certainly undermines responsible and conscientious ownership in the future.

Others, worried that family members can't or won't find productive work otherwise, keep the business to provide jobs for them. In such situations, leadership inevitably erodes.

Many family members can't face selling the business of their parents or grandparents, out of guilt for ending the dreams imposed by others. That duty can become crushing.

Families that hold on to their businesses for such reasons, we find, are rarely successful over the long haul, either as businesses or as families.

As we have noted in the past, the family's business can be a great financial investment. The owners are usually more knowledgeable about the business than about any alternative investments they might make. In addition, capital kept in the business is tax-deferred until death or beyond.

But, as we have learned from so many exceptional family businesses, excellent financial returns are insufficient reason over the long term for family-business cohesiveness and success. People are driven by more than money, and the efforts to assure family-business success require an abundance of heartfelt motivation.

Successful business-owning families share explicit understandings of important mutual goals. These goals often are put into writing as a family mission statement or creed that explains what the family believes in and seeks together. The business is usually viewed as a means to achieve the family's goals. Some family mission statements we have seen pledge that family members will:

- Support one another so that each may achieve his or her fullest potential.
- Perpetuate their love for the family.
- Find opportunities to work together, play together, and be together.
- Provide opportunities for creativity, leadership development, and personal fulfillment.
- Create a legacy of values.

We recommend that your family forge its own family mission statement and then examine whether continuing to own your business helps support the mission. If it

does, your resolve will be strengthened by your family's commitment to shared goals.

A family-owned business can be an excellent vehicle for exemplifying values that you hold dear and proving their importance to others. Many values bring strengths to both your business and your family simultaneously. Examples include trust, honesty, tolerance, work ethic, loyalty, giving back, long-term orientation of the business, development of people, and creativity.

Ultimately, every business-owning family questions the legitimacy of its privilege. Passing property to heirs is both a reward for creating economic value and a special

opportunity. For your inheritors to feel a sense of responsibility and stewardship for the long-term welfare of your business, they must appreciate that the business benefits society, not just the family.

Different families focus on different roles of the business in society:

■ Private enterprises can take a longer view and invest more in people than can publicly held companies.

■ Continuity of family ownership provides the community with stability and support for its needs.

■ Independent businesses have stronger values and encourage creativity and innovation.

■ Entrepreneurial successes provide examples for other entrepreneurs to follow.

In sum, we find that the family's motivation and capacity to continue its business through the next generation depend on the family's sense of purpose for the business and the strength of the values that are pursued by the business.

In the long run, our experience has taught us, the family cannot remain together and be harmonious if the motivation is only economic. In fact, increasing prosperity often weakens family bonds.

The families that enjoy success through the generations are often outstanding stewards as well as leaders. They realize outstanding long-term results on well-managed assets, but their primary motivation is to strengthen their families and give back to society. Owning a business together as a family can provide a great opportunity to achieve both purposes. ■



ILLUSTRATION: TROY THOMAS

## MARK YOUR CALENDAR



### March 3, Concord, N.H.

"Passing the Baton in the Family Business" is a program on succession offered by the Center for Family Business at the University of New Hampshire. Call Barbara Draper at (603) 862-1107.

### March 4, Los Angeles

"Influence Is More Useful Than Power" is the topic of a session offered by the Family and Closely-Held Businesses Program of the University of Southern California. For information, call (213) 740-0416.

### March 10, Lenox and Holyoke, Mass.

"From Controversy to Communication: Thriving on Conflict in the Family Business" is the topic of a luncheon program in Lenox and an evening event in Holyoke. Featured are Peter and Susan Glaser, a nationally known husband-and-wife communications consulting team. Call Ira Bryck at the University of Massachusetts Family Business Center at (413) 545-1537.

### March 11, Stamford, Conn.

"Structuring Your Family Business for Growth: Identifying Opportunities" is a workshop offered by the University of Connecticut Family Business Program. The workshop will be repeated on March 12 in Farmington, Conn. For information, call Diane Mitchell at (860) 486-5740.

### March 17, Randolph, Mass.

"The Ten Most Common Mistakes in a Family Business" is a seminar featuring Donald J. Jonovic, a nationally recognized authority on succession in family firms. Call the Northeastern University Center for Family Business; (781) 320-8015.

### March 29-31, Los Angeles

"Bridging The Gaps Between Research, Education, and Practice" is the subject of a conference co-sponsored by the Family Firm Institute and the University of California at Los Angeles. For information, call the institute at (617) 738-1591.

### How To Get Listed

This list of family-business events features national and regional programs that are open to the public. Send your item three months in advance to *Family Business*, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062-2000.



# Case Study: Getting Dad To Step Down

After 15 years of working together at Ogilvie Equipment Corp., their growing and profitable mining-equipment company, Sam, 66, and his daughter Jennifer, 37, are facing a family crisis.

Jennifer feels that if their \$12 million company is to continue growing, Sam must step out of day-to-day operations. Sam started Ogilvie, but Jennifer runs the business and is the acknowledged leader. Sam's role is primarily in accounting, an area in which Jennifer admits she is weak. With shared ownership, all of Sam's and Jennifer's assets are tied up in Ogilvie.

In recent years, Sam has become very bitter. He no longer enjoys work and is

rude to employees, clients, and vendors. Furthermore, Jennifer says, Sam spends much of the day just "hanging around" the office. She worries that Sam is destroying company morale and disrupting her efforts to create a productive work environment. In addition, she is convinced that the company can have only one boss.

Jennifer has asked her father to become chairman of a newly established

board of directors. In this position, she believes, he could keep in touch with Ogilvie and contribute to its ongoing success without appearing at the office daily. To make up for her accounting deficiencies, Jennifer proposes finding an experienced professional to serve as the company's chief financial officer.

"But my dad doesn't want to step down," says Jennifer. "He has no interests outside work, no hobbies, and a poor—third—marriage. He's resentful that he's being forced out. How am I supposed to effect the needed changes for the best of this business, preserve my dad's dignity, and not destroy our father-daughter relationship?"

## Response 1

### Develop A Plan

First, let's look at what got us to this point. As is often seen in family-business problems, both Jennifer and Sam have failed to consider the other person's needs and point of view while pushing their own. Second, Jennifer should have considered gaining some third-party support for her position instead of being the lone messenger. Third, Sam has to admit, at least to himself, that he is afraid of the "outside world" and won't move until he feels comfortable with it.

The real questions now are where do we go from here and how do we get there?

Our objective has to be to develop a plan that is good for the company and is acceptable to Jennifer and Sam. They need to sit down together with their advisers to work out this plan. It should define the goals for the company. It also needs to spell out leadership positions clearly and define responsibilities for Jennifer and Sam, as well as job descriptions for other key people.

In my opinion, having one boss gives a business the best opportunity to succeed and promotes employee comfort. Jennifer and Sam should face the facts: Sam is not going to get out, but Jennifer is better at running the company on a daily basis.

An aside to Jennifer: Working out a chairman's position for Sam would let him be involved yet give him

time to investigate new interests. The second part of the plan is to help him develop a "second career" and the steps to get there.

An aside to Sam: Lighten up! Tell Jennifer what your real concerns are, and see if there is a way you can work together to alleviate these concerns.



ILLUSTRATION: TROY THOMAS

## Response 2

### Slow The Pace

Sam's fear of stepping down might be resolved if he knew where that step would take him. His relationship with Jennifer might suffer ultimately if some alternative action is not taken to resolve the business conflict. Because of their apparent stalemate, Sam and Jennifer might need to secure third-party consultation to help plan the business transitions at Ogilvie.

Jennifer and Sam should talk about their roles at Ogilvie to clarify what is important to each. The discussion should include Sam's unhappiness and Jennifer's eagerness to take over the company.

Sam is rebelling at the forthcoming change and may feel that he still has a number of productive years remaining with Ogilvie. With no outside interests or apparent friends, Sam has centered his life on Ogilvie. He needs a good reason to get up in the morning.

Because all of his personal assets are tied up in Ogilvie, he may be concerned about the future financial management of the company. Some estate planning would help to secure Sam's future and enable Jennifer to assume the sole leadership role in the company. Jennifer might want to begin the process of buying him out over a period of years.

A beginning dialogue may be developed by getting Sam involved in the hiring of a chief financial officer. Sam could help train the CFO, and as he did so he would likely develop confidence in the CFO's ability to manage Ogilvie's assets. The transitions would be planned to help Sam make changes and adapt at a slower pace.



*G. Jeff Mennen, a former executive with the Mennen Co. and now president of Peak Management, a family-business consulting firm in Florham Park, N.J.*

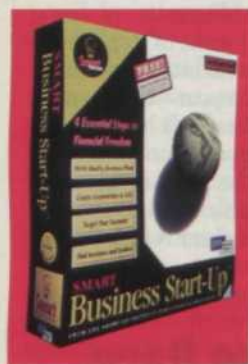


*Dennie L. Smith, a professor of instruction and curriculum leadership and past co-director of the Family Business Forum at the University of Memphis, Memphis, Tenn.*

This series presents actual family-business dilemmas, commented on by members of the Family Firm Institute and edited by Paul I. Karofsky, executive director of the Northeastern University Center for Family Business in Dedham, Mass. Identities are changed to protect family privacy. The authors' opinions do not necessarily reflect the views of the institute. Copyright © by the Family Firm Institute, Brookline, Mass.



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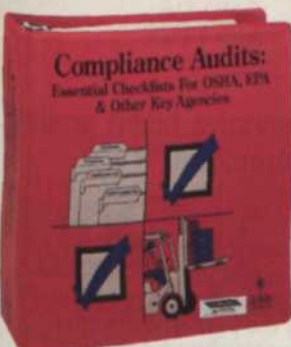
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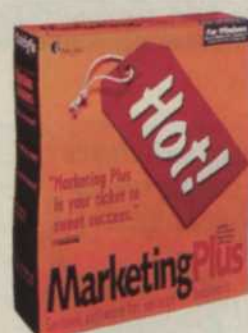
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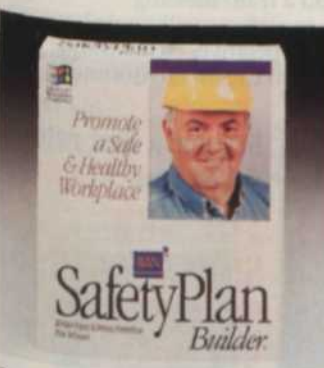
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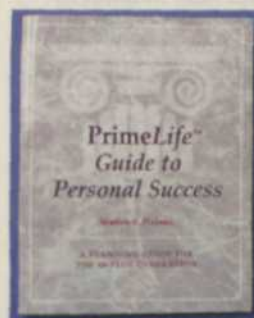


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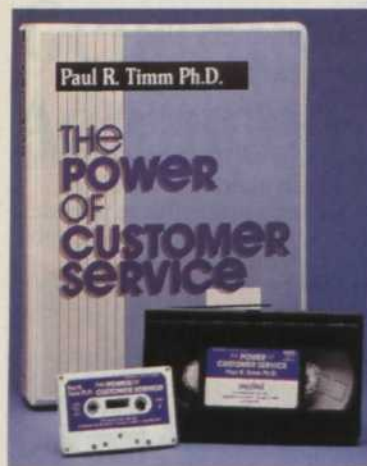
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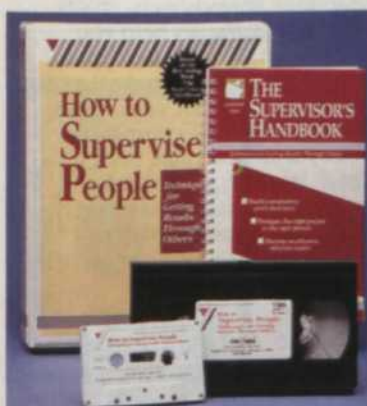


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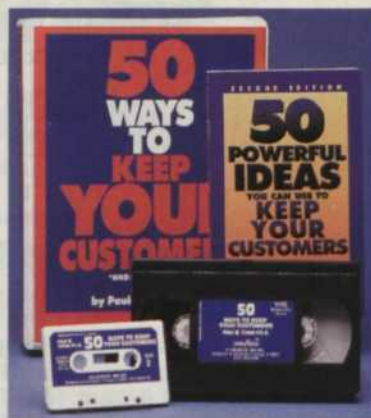
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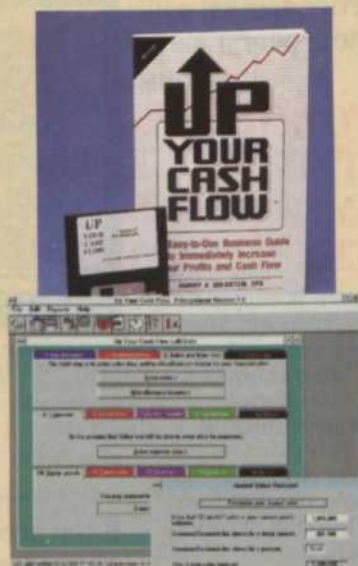


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	50 Ways to Keep Your Customers	\$99.95	\$6.00	
	How to Supervise People	\$99.95	\$6.00	
	Effective Teamwork	\$99.95	\$6.00	
	The Basics of Profitable Customer Service	\$99.95	\$6.00	
	The New Supervisor: Skills for Success	\$99.95	\$6.00	
<b>CASH MANAGEMENT &amp; ADVERTISING</b>				
	Up Your Cash Flow (Professional version)	\$239.00	\$6.00	
	DOS <input type="checkbox"/> 5-1/4 <input type="checkbox"/> 3-1/2 <input type="checkbox"/> Windows, 3-1/2			
	Up Your Cash Flow (Entrepreneur version)	\$139.00	\$6.00	
	DOS <input type="checkbox"/> 5-1/4 <input type="checkbox"/> 3-1/2 <input type="checkbox"/> Windows, 3-1/2			
	Project KickStart (Windows)	\$99.95	\$7.00	
	Managing People (CD-ROM)	\$39.95	\$4.50	
	Do-It-Yourself Advertising (CD-ROM)	\$39.95	\$4.50	
	Hiring Top Performers (CD-ROM)	\$39.95	\$4.50	

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# Readers' Views

## Reform OSHA

**M**ost *Nation's Business* readers who responded to the January issue's Where I Stand poll believe that federal workplace-safety rules aren't fairly and properly enforced, and they say that as employers and managers they could do a better safety job if the regulations were more flexible.

In the poll on the Occupational Safety and Health Administration, an overwhelming number of respondents voiced approval for various proposed OSHA reforms, such as allowing inspectors to help companies fix safety problems and thereby avoid citations.

The same large majorities supported "safety teams" of managers and employees and the use of OSHA-certified safety

consultants if the law allowed them.

Almost 60 percent of the respondents said that OSHA inspectors had visited their firm, and about one-third of those indicated the visit was within the past year.

Respondents were evenly divided on whether properly trained and equipped employees should be fined by OSHA if they violate federal workplace-safety rules.

Congress is considering legislation to overhaul OSHA. One of the proposed changes would allow federally certified consultants to help businesses meet federal standards. Another would bar penalties for paperwork violations unless the employer had a long record of failing to comply with such requirements.

Here are the complete results of the poll:

### Questions And Answers

**Do you think OSHA regulations are fairly and properly enforced?**

Yes .....13%

No .....87

**When was the last time an OSHA inspector visited your business?**

Within the past year .....21%

More than a year ago .....37

Never had a visit .....42

**Should OSHA inspectors be allowed to offer help to firms in complying with regulations before issuing a citation for a violation?**

Yes .....96%

No .....4

**Would you be willing to set up a "safety team" of managers and employees to look at hazards in your workplace if the law allowed such teams?**

Yes .....90%

No .....10

**Would you implement recommendations of an OSHA-certified private safety consultant if doing so would prevent OSHA from leveling penalties for a specific period?**

Yes .....90%

No .....10

**Should properly trained and equipped workers be fined by OSHA, as reform legislation proposes, if they violate the agency's safety rules?**

Yes .....50%

No .....50



# Where I Stand

## On Finding Qualified Workers

**NOW  
HIRING**



U.S. economic growth, now in its eighth consecutive year, has produced the lowest unemployment rate in a quarter-century while creating hundreds of thousands of jobs each month. Employers nationwide are having trouble finding workers with the right skills, however. These questions seek your views on this issue.

Results of this poll will be published in the May issue of *Nation's Business* and will be forwarded to administration officials and congressional leaders. Send the attached, postage-paid Reader Response Card. Or circle your answers and fax this page to (202) 463-5636.

**1**

**How difficult has it been to find new, qualified workers during the past year?**

1. Very difficult
2. Somewhat difficult
3. Not difficult
4. Have not been hiring

**4**

**In which area are your job applicants weakest?**

1. Basic reading and math skills
2. Basic communication skills
3. Specific technical skills
4. Attitude and work habits

**2**

**How satisfied are you with the quality of applicants?**

1. Very satisfied
2. Somewhat satisfied
3. Not satisfied

**5**

**Have you had to offer anything special to attract qualified workers, such as signing bonuses, extra benefits, or rewards to current employees for finding the new workers?**

1. Yes
2. No
3. No, but I am considering doing so

**3**

**How long are jobs going vacant in your company before suitable candidates are found to fill them?**

1. Less than a month
2. One to three months
3. Three to six months
4. More than six months

**6**

**Are any of the people you have hired in the past year former welfare recipients?**

1. Yes
2. No
3. No, but I am willing to consider hiring such people

**Send Your Response Today!**



# Free-Spirited Enterprise

By Michael Barrier

## When A Check Is A Personal Statement

We have in hand a catalog from Styles Check Co. of Lake Forest, Calif. It offers an unusually large number of designs for illustrated checks, at prices starting at \$13.95 for 200, considerably higher than what you'd pay for plain-vanilla checks.

You can buy a set with three rotating designs devoted to cats, for instance, or horses, or—if your tastes are a little more exotic—reptiles. (Actually, paying your taxes on a Gila-monster check would be kind of satisfying, wouldn't it?) There are checks adorned with playing cards and dice, the perfect choice for those who must cover their gambling losses. And there's even a set devoted to Joe Montana, the former pro quarterback.

There are checks with job associations: hair-styling, medical, dental. And there are checks with business themes, including leadership and persistence, that are like miniposters with slogans at the top. (To receive a catalog, call Styles at 1-800-356-0353).

A spokesman for the Federal Reserve tells us that the Fed—which is in charge of such things—doesn't care what's on a check as long as the check is of a standard size and "machine-readable" so that the Fed's sorting machines can pick up the coding at the bottom. (For that matter, you

can write a check on a shirt if your bank will accept it; but the Fed will charge the bank more for handling it.)

In other words, there's nothing to prevent you from using



ILLUSTRATION: KATHLEEN VETTER

your checks to proclaim your affinity for cats, or Joe Montana, or, for that matter, a business. If a big company were to offer you free checks—with an advertising message on each one, so that each check you wrote was a plug for Wal-Mart, perhaps, or Coca-Cola—that would be OK, say the regulators.

No doubt there are more-efficient ways to advertise, but it's a little surprising that you don't see checks of that kind, given the tendency for a selling message to work its way into any empty space.

The Internet is increasingly full of such examples. (You can download free software for sending and receiving electronic mail if you're willing to take ads along with it.)

Our favorite, though, is what happens when you call a business and get put on hold. Instead of listening to someone's poor choice of a radio station, you're increasingly likely to hear

a slickly produced commercial for the business that's making you wait. We spoke recently by phone (of course) with John Bersin, whose Tulsa, Okla.-based company, Impressions on Hold, produces on-hold messages for more than 10,000 clients across the country—businesses of all kinds. "The only qualifier is that they receive phone calls and place people on hold," Bersin says, "which happens in every kind of business. We have everything from funeral homes to car dealerships."

Bersin's staff includes a dozen program managers and writers, who turn out 1,000 messages a month. He has three recording studios on the premises, all in use daily from 8 a.m. to 2 p.m. Customers buy the company's services for one, three, or five years—most often three, at \$139 a month. In return, they get "digital playback equipment" and "as many changes [of message] as they want," Bersin says, at no extra cost.

So insinuating are Impressions on Hold's messages, Bersin says, that some of them actually achieve that nirvana of commercial messages, the blessed realm inhabited by such things as those funny European TV commercials that Johnny Carson used to show. In that realm, the commercial message is no longer the parasite, but the host; it's what you came for.

Says Bersin: "We've actually had customers say, 'Hey, I was listening, can you put me back on hold?'—which is always a compliment."

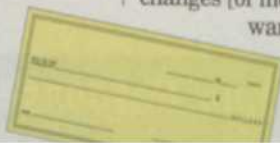
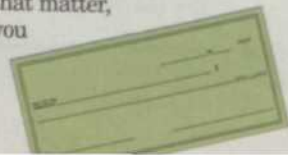
## Back To The Source

They come in a never-ending stream, all those business books with recipes for success. You're likely to get the feeling after a while that the authors are recycling a handful of sturdy ideas—and you'll be right.

For that reason, it's a bit of a shock to encounter a business thinker whose ideas were new, and who was in fact the source—many generations removed now—of a lot of today's slickly packaged advice that's making big money for its authors.

That thinker was Frederick Winslow Taylor, whose concept of "scientific management" still reverberates in thousands of American businesses. Forget Marx, management guru Peter Drucker said; it's Taylor who belongs with Darwin and Freud among the shapers of the modern world.

We've been reading about Taylor recently in *The One Best Way: Frederick Winslow Taylor and the Enigma of Efficiency*, by Robert Kanigel (Viking, \$34.95). It's a good story, and after reading it, you may be inclined to buy fewer of the business books that offer only pale shadows of Taylor's ideas.





# Direct Line

Experts answer our readers' questions about starting and running their businesses.

By Stephen Blakely

## FINANCIAL MANAGEMENT

### Friendly Reminders: Your Account Is Overdue

I have a small and very young business and have discovered that past-due accounts—even for small amounts—can cause a severe cash crunch. What ideas or advice can I get on collecting past-due accounts?  
D.C., Columbus, Ohio

You can contact local bill-collection agencies or the American Collectors Association (ACA) in Minneapolis, which represents the industry. The association offers brochures and general information on the debt-collection process and how to select an agency. It can be reached at (612) 926-6547.

Professional bill collector Elizabeth Mallory of Heritage Financial Recovery Services in Upper Saddle River, N.J., recommends that small businesses turn to companies like hers only as a last resort.

Generally when an account is past due, Mallory says, it's because the bill has been lost or a senior manager isn't aware that the bill is unpaid.

The first and often most effective step for a small-business owner is simply to call the debtor company's owner or senior manager and talk politely about the problem. "The most important thing a small-business owner can do is to pick up the phone," Mallory says. "A lot of times small-business owners don't do that. They just send a letter."

Sometimes, especially with big companies, the problem is as simple as a bill that was routed to the wrong person or a clerk unable to get to the paperwork.

The fastest way to resolve a dispute over

a product or service is to talk directly to the manager involved, Mallory adds.

Mallory maintains that "it is a very small



ILLUSTRATIONS: MARTHA VAUGHAN

percentage of people who just don't want to pay" their bills. For such debtors, she says, dunning letters should be sent by certified mail to demonstrate the attempted communication. If the debtor is local, she adds, an action can be filed in small-claims court without having to hire an attorney.

Although individual creditors are exempt from most of the restrictions placed on profes-

sional debt collectors under the federal Fair Debt Collection Practices Act, there may be privacy or harassment liabilities if you pursue a debt yourself too aggressively.

The Federal Trade Commission enforces the law, and state consumer-protection laws or regulations also might apply.

If you do hire a collection agency, the ACA says, you should use a firm that is licensed and bonded and has trained staff members. In some cases, creditors may be liable for the practices of the third-party debt collectors they hire.

Collection agencies' fees usually are a set percentage of the recovered bill or a combination of a contingency fee

plus a fixed fee in advance.

The ACA's 3,700 member firms altogether employ about 65,000 people and work to collect past-due accounts for nearly 1 million creditors. In 1996, professional debt-collection agencies recovered more than \$20.4 billion in the United States. The ACA estimates that bad debt costs every American \$375 a year, which is passed on in higher costs for goods and services. ■

## GETTING STARTED

### Leather To Wear

Where can I find a leather manufacturer to develop my idea for a leather clothing item?  
A.D., Lawndale, Calif.

The Leather Industries Association in Washington, D.C., (202-342-8086) offers a free directory of member companies that produce the tanned leather used in clothing and other products.

For information on companies that manufacture garments and fashion products out of finished leather, contact the National Fashion Accessories Association in New York City at (212) 947-4324.

Accessories, a magazine that covers the leather trade, is available for \$35 a year from Business Journals, Inc., of Norwalk, Conn.; (203) 852-0500.



### Mail-Order Search

I am exploring business opportunities in mail-order publishing. Where can I find information and resources?  
P.H., New York City

Try contacting the National Mail Order Association (NMOA) in Minneapolis at (612) 788-1673. Much of its basic information is available on the NMOA's Internet site at [www.nmoa.org](http://www.nmoa.org). Another organization that can provide help is the Publishers Marketing Association in Hermosa Beach, Calif. It can be reached at (310) 372-2732.

The biggest mail-order catalog operations in the country have formed the Mail Order Association of America, based in Washington, D.C. The group monitors postal rates and other mail-related issues, and it has just four members: J.C. Penney, Lands' End, L.L. Bean, and Spiegel. ■

## HOW TO ASK

Have a business-related question? Mail or fax your typewritten query to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062-2000; (202) 463-3102. Or transmit your question via electronic mail to [directline@nbmag.com](mailto:directline@nbmag.com). Be sure to include your address and telephone number.

Because of the high volume of letters, we can answer only those that are chosen for publication. Questions may be condensed, and writers will be identified only by initials and city.



## GETTING STARTED

Bowled Over  
By A Dream

I would like to fulfill my lifetime dream of opening a bowling alley. I need information on this type of business.

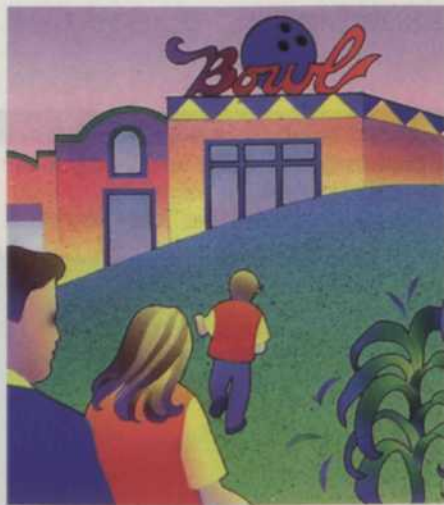
J.M., Robinson, Pa.

For information on all facets of the sport, contact Bowling Inc., an industry clearinghouse in Greendale, Wis., for manufacturers, bowling centers, and players associations. It can be reached at (414) 421-6400.

Another resource is the Bowling Proprietors' Association of America in Arlington, Texas; (817) 649-5105. It offers bowling-center owners various educational seminars, insurance, and other benefits; membership costs vary.

In addition, two major manufacturers of bowling equipment and facilities offer information specifically for investors and others interested in building or operating bowling centers. AMF Bowling Products of Richmond, Va., has an Internet site at [www.amfbowling.com](http://www.amfbowling.com) and can be reached at (804) 559-8674. Brunswick Indoor Recreation Group of Muskegon, Mich., recommends that you contact its North American sales headquarters in Chicago at (630) 268-0800 and review its Internet site at [www.brunswickbowling.com](http://www.brunswickbowling.com).

The American Bowling Congress, the sport's rules-governing body, says bowling centers peaked in 1963 at 10,883 and by 1997 had declined to 6,688—a drop of 38 percent. The number of lanes dropped by less than half that rate, however, indicating



that bowling centers are becoming bigger. The typical center has about 20 lanes.

A survey released last year by Roper-Starch Worldwide, a market-research firm in New York City, found that bowling is the nation's leading participation sport

and "is poised for significant growth." More than 54 million Americans—the vast majority of them adults—bowl, the survey found.

The study said the sport has "attractive, solid demographics," appeals to a wide cross section of the population, is a strong family activity, and is easy and inexpensive to play. Nonetheless, the study concluded that "bowling's image needs updating."

Part of the image problem, says bowling-property specialist Sandy Hansell, is that "a lot of bowling centers built 20 to 30 years ago are reaching the end of their useful lives" and many are in deteriorated locations. Hansell's real-estate agency, Hansell and Associates of Southfield, Mich., specializes in bowling centers.

Factors in a bowling center's success, says Hansell, include location near stable or growing communities with lots of families, visibility and accessibility from the street, and a clean, modern building.

Hansell says bowling centers built today must offer recreational amenities besides bowling, such as play areas for young children, upscale billiard rooms, gyms, auditoriums that can be used for roller skating or volleyball, and even a brew pub.

A 40-lane center, typical for facilities now being built, will run between \$4 million and \$5 million, Hansell says.

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# Making It

*Growing businesses share their experiences in creating and marketing new products and services.*

## Savoring Success

By Nancy Bearden Henderson

**H**is father had always warned him to stay away from the food business. The oldest son in a poor Muslim family in Dezful, in the Iranian province of Khuzestan, A. Hamid Andalib was in the first grade when he began helping his dad, who, though he was a gourmet chef, made less than \$100 a month.

At age 8, Andalib began selling sandwiches and cookies during an annual fund-raising drive of the Iranian association of the World Organization of the Scout Movement. Andalib outsold his competition and made enough money to pay for clothing and books for himself and his two brothers and three sisters.

When the Iranian Revolution broke out in 1978, 17-year-old Andalib secured a visa just before the American Embassy in Shiraz closed. He borrowed money for air fare from relatives and fled to the United States.

Andalib went to Atlanta, where he had a

friend, a fellow Iranian who was studying at the Georgia Institute of Technology. Andalib earned an associate degree in computer science and mathematics from the school while working as a dishwasher and waiter at Pano's and Paul's, a top restaurant.

"I really came to this country to do anything *but* work in a restaurant," he says. "But I realized more and more a natural tendency I had, and that was my ability to deal with people."

Andalib pursued a bachelor's degree in electrical engineering at the University of Tennessee at Chattanooga while working first as a waiter and later as a manager at another upscale eatery, The Loft. After graduating in 1985, Andalib and his former supervisor bought The Loft, raising the capital with the help of a few loyal customers.

In 1989, two days before New Year's Eve, an early morning fire destroyed The Loft. Andalib and his partner nearly went bank-

rupt during an eight-month battle involving delays in insurance payments and a bank that wanted the mortgage loan repaid. With the financial backing of a longtime patron, however, Andalib rebuilt The Loft, doubling its size. He then bought out his partner.

Today The Loft is one of the largest independent, locally owned restaurants in Tennessee, with annual sales topping \$3 million, more than 80 employees, and seating for 625 people.

Andalib was named Small Business Person of the Year by the Chattanooga Area Chamber of Commerce in 1996 and was appointed to the governor's Workforce Development Board to help prepare Tennessee firms for global competition.

He then was named a 1997 state honoree in the Blue Chip Enterprise Initiative, a program that recognizes entrepreneurs who have dealt successfully with significant challenges. The program is sponsored by Massachusetts Mutual Life Insurance Co. (known as Mass Mutual—The Blue Chip Company), the U.S. Chamber of Commerce, *Nation's Business*, and "First Business," the Chamber's syndicated morning business-

news television program.

"Even with the fire and losing everything, he still had that determination to go on," says Constance Washington, member-services manager of the Chattanooga chamber. "He showed that if you put forth that effort, you can achieve the American dream."

Assessing his achievement, Andalib says: "I believe in developing good people. You treat them right, let them participate in your vision and become part of it, have compassion for them, and help them design a future and a life rather than just make a living. Once you do that, you can delegate to them

*Determination is one of the attributes that enabled A. Hamid Andalib to reach the heights of the restaurant business.*





without wondering if they're going to do the job right."

All new Loft employees receive a week of personal instruction and video lessons on preparing and presenting each dish, and all must pass a written exam.

A key to success, the restaurateur says, is savvy marketing. Around Valentine's Day every year, female customers receive a tiny 14-karat-gold heart pendant. Andalib also sells Loft dinner-for-two gift certi-

cates to local companies. Realty Center of Chattanooga, for example, gives a certificate to its clients who buy or sell a house.

The Loft even has its own MasterCard and donates part of each dollar charged on it to the city's T.C. Thompson Children's Hospital. Andalib also started AHA Capital, a consulting firm that helps companies develop their own branded credit cards.

Andalib is one of the most visible business owners in Chattanooga, greeting each

Loft customer with a smile and a firm handshake. Why so hands-on? "Number 1, running a very good operation is not one big thing; it's a thousand little things," he replies. Then, poking fun at himself, he adds: "Number 2, a customer would much rather meet a dumb owner than an intelligent manager." ■

*Nancy Bearden Henderson is a free-lance writer and book author in Chattanooga, Tenn.*

## What's In A Name?

By Michael Barrier

**W**hen she started her Boston-based company a dozen years ago, Sharon F. Merrill says, she did herself a favor by calling it Sharon Merrill Associates, because it's instantly clear that it's a woman-owned firm.

"If someone has a problem dealing with a woman," she says, "we never even talk. All the people I've dealt with in the last 12 years have been absolutely delightful to work with when it comes to that issue."

She has dealt with those people—the CEOs and chief financial officers of dozens of publicly owned companies, mostly small and medium-sized—as the head of an investor-relations firm. Merrill Associates is a highly specialized operation whose task is to increase the visibility and raise the market valuation of its client companies.

"The whole reason for a stock's price being way too low is communication and information," Merrill says. "If a company has a good story but people haven't been paying attention," she says, it may be because the investment community formed a negative impression years before. "When we get hired, we try to close the gap."

She began thinking about starting her own company when she was running the investor-relations division of a public-relations firm. She realized that her only direct competitors—other firms specializing in investor relations—were in New York. Even now, she says, "there's nobody else in Boston" directly comparable to her firm.

A large company often has its own investor-relations staff, and many public-relations and consulting firms have long offered such services. According to Louis M. Thompson Jr., CEO of the National Investor Relations Institute, a Vienna, Va.-based organization with a membership of 3,000 investor-relations professionals, it was in the mid-1980s that what he calls "boutique firms" such as Merrill's began to appear in significant numbers.

Merrill Associates represents about 30 companies, the most that its current 17-member staff can handle, Merrill says.

Merrill, who had left the PR firm, was director of investor relations for business-software maker Lotus Development Corp., based in Cambridge, Mass., when she left in 1985 to start her own firm. She had two clients signed up at the outset, she says, "so we started right out with revenues. The cash flow was on my side right from the start."

She recruited a colleague from Lotus, Maureen Wolff-Reid, to join her and "liter-



PHOTO: WEBB CHAPPELL

**Investor-relations consultants Sharon F. Merrill, left, and Maureen Wolff-Reid quantify their firm's achievements.**

ally do everything else"—from answering the phone to setting up the accounting system—while Merrill was out working with clients. The company has grown steadily ever since; it now has annual revenues that are "less than \$5 million," says Merrill, the firm's chairman and CEO.

Although turnover in an investor-relations firm's portfolio is inevitable—once a

company returns to investor favor, its need for such specialized help diminishes—"the vast majority of our clients are on long-term plans," Merrill says. "It takes four quarters to make something happen. Our clients tend to sign up with us for that and then stay with us."

Because "investor relations can be looked at as very nebulous," she says, "we take the opposite approach, of trying to quantify what our program is achieving."

Wolff-Reid, the company's president, offers an example: "A company may come to us and say they have only a limited number of [institutional investors] following them. We will work with them and come up with

what we think is an achievable percentage" of shares owned by institutions. "Or, if the company wants to increase the number of brokers that are following the company, that would be another benchmark."

Merrill says that her success in a traditionally male-dominated arena can be traced in part to a piece of advice "that I follow to this day. No matter who you meet, no matter where you meet them, tell them who you are, what you do, and what you're going to do. As soon as I heard this, I was out telling everybody that I was going to start this company."

"In the beginning," she adds, "I also made it my business to give a speech to anybody who wanted somebody to make a

speech. After three years of doing this on a regular basis, I received a referral from somebody I didn't know."

Now, she says, almost all of the company's business comes through referrals—from analysts, investment bankers, accountants, and others who have dealt with Merrill Associates on a professional basis and know what the firm can do for its clients. ■



# A Sterling Achievement

By J. Tol Broome Jr.

**A** call comes in on one of the dozens of toll-free telephone lines at Replacements, Ltd., a company that specializes in locating and selling discontinued china, crystal, and tableware patterns. An order is placed for three dinner plates and two soup bowls of Cavendish by Wedgwood, a popular china pattern.

The sales associate taking the order? It is the company's founder and president, Robert L. Page.

To stay in touch with the needs of his customers, Page fields several dozen sales calls each week at Replacements' home office in Greensboro, N.C. "We place a tremendous emphasis on customer service," says Page, who tries to stay as directly involved as a president can in a \$57 million company that employs more than 500 people.

In addition to taking sales calls, the 52-year-old Page makes it a point to contact several of the company's 1,500 suppliers each week to say thanks. He also has helped design many of the custom software programs used to track an inventory that exceeds 90,000 patterns, and he is the company's most knowledgeable employee when it comes to identifying patterns.

In March 1981, Page left his job as an auditor for the state of North Carolina and decided to make a full-time business of a weekend hobby that included selling refinished furniture. Page had collected coins as a boy, later focusing his collecting efforts on discontinued place settings.

"I hated my job," says Page. "So I decided to quit. My thought was that I might not make as much money, but if I liked what I was doing, I would be better off."

Page set up a card table in his bedroom and used a recipe box to track his customers and suppliers. His attic became his warehouse, and an answering machine was used to take orders. He soon dropped the furniture refinishing to concentrate on buying and selling used china and crystal. "I quickly began to realize that there were people looking for patterns and there was no one out there filling that need," says Page.

Soon after starting the business as a full-time venture, Page hired a part-time assistant and rented a 600-square-foot house for the operation. "She packed the orders, and I did everything else," says Page. "I was working some very long hours."

Six months later, attempting to purchase a 2,000-square-foot facility, Page was turned down for a loan backed by the U.S. Small Business Administration, but he persuaded the building's owner to finance the purchase. Sales reached \$52,000 the first year. In 1982, a bank provided a loan for a 5,000-square-foot expansion. Sales passed the \$5 million mark in 1986.

That year, however, Page was injured seriously in an automobile accident. Although he was confined to a wheelchair for six months, he continued to devote long hours to Replacements.

Sales continued to increase at a dizzying pace as the company outgrew two more facilities. By 1989, replacement flatware (sterling, silver plate, and stainless) had been added to the product line, and sales

Its customer list recently topped 2 million. Ninety percent of sales come by way of the toll-free telephone lines, which receive more than 8,000 sales calls per day. The remainder comes from walk-in traffic in the showroom. A network of more than 300 personal computers and terminals manages the sales system and tracks inventory.

Page cites cash flow as his biggest challenge in a business that is inventory-intensive. One of the largest U.S. companies in its field, Replacements purchases 50,000 to 60,000 items per week, utilizing a quarterly catalog, produced in-house, to provide more than 80,000 prices for the firm's suppliers, mainly antique dealers and china companies.

Page says there are two keys to the company's success: honesty and "extraordinary" customer service. Replacements keeps detailed records on customers' ordering habits and keeps them informed when the company receives items in patterns they have bought in the past.



PHOTO: DENYNE HALL

**His company has grown from a start-up to a huge operation, but Robert L. Page still stays in touch with the front lines at Replacements, Ltd.**

were approaching the \$10 million level. Page realized he had to think long-term for his next expansion. He purchased an 80-acre parcel of land that had high-visibility frontage on Interstate 85 on the outskirts of Greensboro. A 100,000-square-foot facility was constructed with plenty of room for additional warehouse space. It took four months to move all the inventory. Page hopes it will be his last move.

Today, Replacements occupies 225,000 square feet. It advertises in more than 100 publications, including *Better Homes & Gardens*, *House Beautiful*, and *Smithsonian*.

Every employee is trained to take customer calls, and a peak-time system is used to inform administrative employees—via chimes or a voice broadcast over the company's speaker system—to stop what they are doing and answer a call. As a result, the average answer time for a customer call is nine seconds.

Page says he is thinking of expanding horizontally into other areas of collectibles, but he will not sacrifice service for growth. "We don't want to grow so quickly," he says, "that we can't continue to provide the level of customer service that we do now." **NB**



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# Editorial

THE TORQUE SENDS

## Conflicts In The President's Legislative Agenda

**P**resident Clinton doesn't give up on what often appears to be his principal goal in setting policy: reconciling the unreconcilable. In too many instances, he sets pro-growth goals that he proposes to achieve with anti-growth policies.

His State of the Union address provided the most recent demonstration of this tendency. While boasting about shrinking the government and producing a balanced budget, he simultaneously offered proposals that would have the opposite effect in both areas.

His legislative priorities for the 1998 session of Congress, as listed in his address, would mean bigger government and could, by some estimates, increase government spending by as much as \$45 billion a year.

The fiscal impact could be worse down the road. Several of his recommendations could trigger an economic decline that would mean less revenue and a push for higher taxes.

Business has long supported improvements in areas such as trade, education, Social Security, health care, and environmental protection. But the president's means to those ends are often badly flawed.

For example, he properly calls for fast-track trade-negotiating authority, which would make trade pacts subject only to up-or-down votes in Congress. But he also suggests that the United States must advance worker and environmental standards around the world as part of its trade agenda.

His approach to health care is a particularly troubling proposal from a chief executive who purports to be reducing the role of government in American life. In his address to Congress, he called for passage of a plan for purchase and use of health-care

services, a move that would drastically expand the federal role in that area.

In urging approval of the Kyoto Protocol on global warming, Clinton failed to note that nations that had not signed the treaty could keep on polluting while the U.S. economy would suffer from the treaty's re-

strictions on energy production. In the same passage, Clinton also suggested that environmental gains carry no economic penalties.

Despite Clinton's rhetoric on all of these issues, business remains concerned about how he plans to reach his goals.

That concern is reflected in the comments of Thomas J. Donohue, president and chief executive officer of the U.S. Chamber of Commerce, on the State of



*Will Clinton insist on tying trade to global environmental standards?*

the Union address: "Too often, more mandates, more regulations, and a more intrusive federal government are wrapped inside the president's politically appealing rhetoric."

At the same time, the business organization offers a legislative program that would give the nation a framework to increase economic growth, productivity, and global competitiveness.

It calls for tax relief, restructuring the Internal Revenue Service, renewing fast-track authority, improving the transportation infrastructure, regulatory relief, environmental reforms consistent with economic growth, revision of product-liability laws, improved job-training programs, resisting a big-labor agenda that includes a higher minimum wage, and fighting enactment of federal health-care mandates.

Congress should have no difficulty deciding which agenda—the president's or that offered by business—will best protect and expand the nation's economic gains.



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# The Business Advocate

SUPPLEMENT TO **Nation's Business** MARCH 1998



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U.S. Chamber Executive Vice President Bruce Josten, at the dais during a recent Capitol Hill news conference, expressed the Chamber's opposition to health-care proposals that would impose mandates on business. Others voicing opposition included, from the left, National Federation of Independent Business President Jack Faris, Maryland small-business owner Kent Swanson, and Tony Burns of The Business Roundtable. (See the related story on Page 2A.)

## Chamber Sues OSHA

**T**he U.S. Chamber of Commerce has filed suit against the federal Occupational Safety and Health Administration to stop a program that the business organization says coerces firms into complying with standards the agency has failed to promulgate properly.

The Chamber has asked the U.S. Court of Appeals for the District of

Columbia Circuit in Washington to strike down OSHA's Cooperative Compliance Program.

Although the program is billed as voluntary, more than 14,000 firms received letters from OSHA requiring that they comply with the program's provisions by January 1998 or face mandatory inspections.

Under the program, companies must

*Continued On Page 3A*



## ■ Transportation

# Full Funding Of Roads Backed

The U.S. Chamber of Commerce is asking Congress to use all of the money accumulated in the federal

said Bruce Josten, the Chamber's executive vice president for government affairs, at a recent news conference on Capitol Hill. "Washington must now live up to its commitment to fully dedicate these user fees for improving America's transportation system."

The Chamber was joined at the news conference by the National Governors' Association, organized labor, and other business organizations.

Known collectively as the Coalition for TRUST—Transportation Revenues Used Solely for Transportation—the organizations emphasized the vital role of highways in the economy and urged lawmakers to

spend existing trust-fund money to improve the nation's transportation infrastructure.

The Highway Trust Fund collects more than \$30 billion each year, mostly

through federal taxes on motor fuels.

In recent years, however, only about \$23 billion has been allocated for road and bridge construction and repairs.

Congress has not appropriated all the money collected in the fund despite the well-documented need for infrastructure repairs. Money has been left unspent to mask the size of federal budget deficits.

The U.S. Department of Transportation has identified more than \$450 billion in capital needs for airports, highways, mass transit, and waterways.

The Chamber and other coalition members urged quick congressional reauthorization of the federal highway law—the Intermodal Surface Transportation Efficiency Act of 1991.

The law sets transportation priorities and requests spending amounts, which are set through the congressional appropriations process.

The measure expired Sept. 30, 1997, and Congress extended funding through March of this year. The funds help states finance transportation projects, many of which will shut down if the law is not reauthorized soon.



PHOTO: T. MICHAEL REZA

**U.S. Chamber Executive Vice President Bruce Josten, at the dais, urged Congress to use all of the federal Highway Trust Fund money for the purpose for which it was collected—needed road repairs and construction.**

Highway Trust Fund on improvements to the nation's roadways.

"Businesses and consumers have paid billions of dollars in taxes for a reliable and efficient transportation system,"

## ■ Health Care

# Bills Would Impose Mandates

Health-care legislation pending in Congress would add hundreds of mandates on employers, increase costs to businesses, and decrease the number of Americans with health-care coverage, says the U.S. Chamber of Commerce.

The Chamber is among the leaders of a broad-based business group, known as the Health Benefits Coalition, opposing the measures.

The coalition is targeting bills sponsored by Sen. Alfonse M. D'Amato, R-N.Y., and Rep. Charles Norwood, R-Ga., that the sponsors say would give consumers more access to health care and more rights in dealing with health-care providers and insurers. The coalition says the measures would hurt employers, who provide health coverage voluntarily to more than 100 million Americans.

Among the provisions in the D'Amato and Norwood bills are measures that would dictate the terms of payment for

doctors participating in health plans and require health plans to reimburse health-care providers who are outside the plan network at the same rate as providers in the network.

The measure also would expand medical-malpractice liability to health-plan providers, including insurance firms and employers, not just doctors.

"This legislation is a nightmare of higher costs and litigation that will destroy the private health-care marketplace," said Bruce Josten, the Chamber's executive vice president for government affairs, during a Jan. 26 news conference announcing the coalition's formation and its opposition to the D'Amato-Norwood legislation.

According to a study of the bills by Milliman & Robertson, a Seattle-based consulting

firm, health-insurance premiums would rise nationwide by an average of 23 percent. Other studies, including one by the Congressional Budget Office, have shown that for each 1 percent increase in health costs, 200,000 to 400,000 Americans lose health-care coverage.



**Bill Gradison, left, president of the Health Insurance Association of America, and U.S. Chamber President and CEO Thomas J. Donohue discuss health-care proposals that would impose mandates on employers and insurers.**



## ■ Testimony

# Chamber Urges Reduction In Taxes

The U.S. Chamber of Commerce is calling on Congress to reduce taxes on businesses during its 1998 session.

The Chamber made its case for the reductions during hearings before the House Ways and Means Committee in late January and early February.

On Jan. 28, Chamber witness Jeannine Mizell urged the tax-writing

Mizell is a third-generation owner and manager of Mizell Lumber and Hardware Co. in Kensington, Md. Her family had to pay nearly \$300,000 in estate taxes on the business after her parents died.

Under the tax, imposed when an estate is transferred to an individual's heirs, the value of an estate above a certain lifetime exemption amount is taxed beginning at 18 percent. The tax rate is 55 percent on transfers valued at \$3 million or more; transfers between \$10 million and \$21 million are subject to an additional 5 percent surtax.

The Taxpayer Relief Act of 1997 incrementally increases the estate and gift tax's lifetime exemption from \$600,000 in 1997 to \$1 million in 2006 and thereafter. However, the exemption is not indexed for inflation and the tax rates are too high, Mizell said.

"The U.S. Chamber believes that the estate and gift tax should be repealed [or] ... it should be significantly reformed," she said.

In testimony Feb. 4 before the Ways and Means Committee, Martin A. Regalia, vice president and chief economist for the Chamber, said the "overall tax burden on American families and businesses is too high." He said that the Chamber would be pushing for a number of tax-reform measures in the coming months. (See the tax-cut details on Page 7A.)

## ■ Lawsuit

# 'Voluntary' OSHA Program Called Coercive

*Continued From Page 1A*

agree to establish a written safety and health program, to identify and correct all workplace hazards, to set up worker safety committees, and to provide OSHA with safety and health data above what is currently required by law.

Among the hazards that employers must eliminate are those for which there are no agency standards and for which no regulations have been approved.

Examples include situations the agency considers to be ergonomic hazards related to repetitive motion. Yet there is no definitive, scientific link between job activities and certain injuries, such as carpal tunnel syndrome and tendinitis, and the agency has not issued regulations on ergonomic hazards.

OSHA has been pushing for several years to implement workplace ergonomics and safety-and-health program standards. The latter rules would require companies to have a written safety and health program and a worker safety committee.

Business, led by the Chamber, has stopped OSHA's efforts. Recently the Chamber helped win passage in Congress of a provision that prohibits the agency from issuing an ergonomics standard during fiscal 1998, which ends Sept. 30. (For details, see Page 6A.)

"OSHA is moving forward with an agenda to force American companies to comply with standards the agency has failed to get properly promulgated," says Stephen A. Bokart, vice president and general counsel for the Chamber. "This is coercion at its worst, and we urge the U.S. Court of Appeals to strike down this strident enforcement policy."

"OSHA should work cooperatively with businesses," says Bokart, "not bludgeon them into complying with costly standards whose effectiveness has yet to be validated."



Jeannine Mizell, owner and manager of Mizell Lumber and Hardware Co. in Kensington, Md., talks with company salesman James Todd. Mizell urged the House Ways and Means Committee on behalf of the U.S. Chamber to reform or repeal the estate and gift tax.

panel to make additional changes in the estate- and gift-tax law. "The estate and gift tax depletes the estates of taxpayers who have saved their entire lives, often forcing successful family businesses to liquidate or take on burdensome debt to pay the tax," she said.

## ■ Legislation

# Stop Wage Hike, Says Business

A proposed minimum-wage increase pending in Congress is under attack from the U.S. Chamber of Commerce.

Sen. Edward M. Kennedy, D-Mass., has introduced two bills, one on behalf of President Clinton, to raise the wage floor from its current \$5.15 an hour.

One bill, S. 1009, would raise the wage to \$7.25 an hour in five steps. Increases would occur on Sept. 1 each year through 2002. The minimum wage would rise to \$5.65 this year, \$6.15 in 1999, \$6.65

in 2000, \$6.95 in 2001, and \$7.25 in 2002.

The other bill, S. 1573, which the president called for in his Jan. 27 State of the Union address, would boost the minimum wage to \$5.65 in 1998, \$6.15 in 1999, and \$6.65 in 2000. Thereafter, the rate would be adjusted to reflect increases in the Consumer Price Index. The increases would take effect on Sept. 1 of each year.

Congress last approved a minimum-wage increase in 1996.



The Chamber's Bokart



## ■ Leadership



Senate Majority Leader Trent Lott, R-Miss., left, talks with, from left to right, U.S. Chamber Executive Vice President Bruce Josten, President and CEO Thomas J. Donohue, and Senior Vice President Lonnie Taylor before addressing a Chamber Policy Insiders meeting. Lott laid out the Senate Republicans' 1998 agenda, which he said would include among other issues cutting taxes, reforming education, and fighting crime and drug abuse.

PHOTO: T. MICHAEL REZA

## ■ Action Needed

# Chamber Asks Senate To Approve Comp Time

**T**he U.S. Chamber of Commerce is urging the Senate to approve legislation that would grant employees more flexibility in their work schedules.

The Senate bill, sponsored by Sen. John Ashcroft, R-Mo., would allow employers to give their hourly workers the option of taking compensatory time in lieu of overtime pay.

In addition, it would allow flexible scheduling by changing the 40-hour workweek, as specified by the Fair Labor Standards Act of 1938, to an 80-hour, two-week period. Such a change would permit, for example, an hourly employee to work 50 hours one week and 30 hours the next without the employer paying overtime, provided that the employer and employee agree to the arrangement. Workers would receive overtime pay or comp time for every hour over 80 worked in the two-week period.

Currently, hourly employees must be paid 1½ times their hourly wage for each hour over 40 worked in one week.

The House approved a comp-time bill

in March 1997 on a 222-210 vote. It deals only with comp time for hours worked over 40 in a week and would not extend the hourly employee work period to an 80-hour, two-week period.

The House and Senate bills would amend the Fair Labor Standards Act to allow workers to accrue compensatory leave at the rate of 1½ hours for each hour of overtime worked. The House measure would allow employees to accrue up to 160 hours of comp time in a year; the pending Senate bill would allow up to 240 hours annually.

But both bills would only allow comp time through mutual agreement, in writing, between the employer and the employee.

*Call your senators immediately and urge them to support the Ashcroft bill to allow workers to take comp time in lieu of overtime pay and to allow flexible scheduling through an 80-hour, two-week work period. Call the Capitol switchboard at (202) 224-3121.*

## ■ Foundation

# Chamber Renews Research Arm

**T**he U.S. Chamber of Commerce has revitalized its National Chamber Foundation, an independent, nonprofit affiliate that acts as the public-policy-research arm of the business federation.

The foundation was active from its start in 1967 until 1994 in various public-policy activities, including studies of major emerging issues. For the past three years, however, it has been inactive.

Thomas J. Donohue, who became president and CEO of the Chamber Sept. 1, pledged to revive the foundation.

He appointed Meryl Comer, formerly the Chamber's vice president for communications development, as head of the entity, and he said the foundation will be used to examine the short- and long-term challenges facing American enterprise.

"The foundation will take center stage in many of the critical national policy questions facing our country," says Comer, now a senior vice president with the Chamber. "It will help formulate the arguments, develop the options, and influence the debates on issues in an effort to move the American business agenda forward in Washington, the states, and around the world."

Among the efforts the foundation expects to undertake are:

- A series of forums to address problems affecting businesses and entrepreneurs.

- Studies to identify the options and innovative approaches available to deal with such challenges as reforming government entitlement programs, deregulating electricity, restructuring education and training, reforming tax policy, and expanding international trade.

- A project, in conjunction with the Hudson Institute, an Indianapolis-based organization that studies future trends, to look at problems and opportunities that likely will face the United States and the global economy in the next millennium. Titled "The Next Agenda," the project will provide a 10-year outlook of the challenges facing the world.

For more information about the National Chamber Foundation, call (202) 463-5819.





## ■ 'Big Government' At Work

# Clinton Proposals Criticized

**P**resident Clinton's fiscal 1999 budget and the proposals in his recent State of the Union address are "prescriptions for an economic decline and, sooner or later, higher taxes," said the U.S. Chamber of Commerce.

On one hand, "the president appears to have heard the message of American business," said Thomas J. Donohue, the Chamber's president and CEO, following Clinton's Jan. 27 State of the Union speech. "Expanding trade, improving education, reforming entitlements, and attacking crime and drugs—these are top goals of the U.S. Chamber and American business."

But "too often, more mandates, more regulations, and a more intrusive federal government are wrapped inside the president's politically appealing rhetoric," said Donohue.

In his Jan. 27 address to the nation, Clinton called for federal initiatives to overhaul the country's health-care system, to make more people eligible for Medicare, and to regulate child care. He said that the federal minimum wage should be increased and that the Family

and Medical Leave Act should be expanded.

Donohue said the proposals conflict with Clinton's claim two years ago that the "era of big government is over."

Clinton submitted his budget proposal to Congress Feb. 2.

The Chamber says the president's budget plan would exceed the spending caps for discretionary programs established in last year's Balanced Budget Act by \$42 billion. In addition, it would create or expand 39 government entitlement programs, including Medicare, at a cost of \$53 billion.

Clinton plans to pay for much of the spending increases through an increase in the tax on cigarettes, which is expected to bring in \$65 billion, and through the elimination of certain business tax credits and deductions, which would generate about \$24



Watch for hidden mandates in Clinton's initiatives, cautioned Chamber President and CEO Thomas J. Donohue.

billion over five years.

Among the administration's proposals affecting business are a new tax on the savings that large C corporations would realize in converting to S corporations, elimination of the dividends-received deduction for certain preferred stock, a requirement that employers pay federal and state unemployment taxes monthly instead of quarterly, and elimination of some estate-planning techniques for lowering taxes under the estate and gift tax.

Although Clinton's budget plan does call for extending certain business tax credits—including the research-and-experimentation credit, the Work Opportunity Tax Credit for hiring certain disadvantaged individuals, and the employer-provided educational-assistance exclusion—it includes \$17 billion in new user fees, the Chamber notes.

## ■ Budget Views



Rep. John S. Tanner of Tennessee, one of Congress' fiscally conservative "Blue Dog" Democrats and a member of the House Ways and Means Committee, told the U.S. Chamber's Tax Policy Committee that he believes federal entitlements, such as Medicare and Social Security, must be reformed before any budget surplus is spent on tax cuts or social programs.

## ■ Legislation

# Bankruptcy-Law Overhaul Urged

**C**laiming that it is too easy under current law to walk away from debt, the U.S. Chamber of Commerce is pressing Congress to reform the nation's bankruptcy law.

The business federation is supporting bills pending in the House and Senate that would tighten the rules for filing for bankruptcy. It is asking Chamber members to contact their lawmakers to urge reform of the bankruptcy law.

It is estimated that more than 1.4 million individuals and businesses filed for bankruptcy last year at a cost to creditors of more than \$40 billion.

The Chamber is backing a measure sponsored by Reps. Bill McCollum, R-Fla., and Rick Boucher, D-Va., another by Rep. George W. Gekas, R-Pa., and one by Sens. Charles E. Grassley, R-Iowa, and Richard J. Durbin, D-Ill.

The legislation would make changes to

the Bankruptcy Reform Act of 1978, which made it more attractive to file under Chapter 7 of the bankruptcy law. Chapter 7 allows individuals and businesses to wipe out nearly all of their debt regardless of their ability to repay.

Other provisions of the law, including Chapters 13 and 11, the latter of which is used mostly by businesses, require that most debt be repaid over three to five years.

Because it allows debt to be erased, Chapter 7 has accounted for about 70 percent of the consumer bankruptcy filings over the past decade, according to the American Bankruptcy Institute in Alexandria, Va. Chapter 13 accounted for 30 percent of filers.

The pending legislation would make it harder for individuals and businesses that have the ability to repay debt to file for Chapter 7 bankruptcy.



## ■ Coalition Action

# Lifting Of Cuban Embargo Urged

U.S. food, medicine, and medical supplies should be freely available to the Cuban people, said the U.S. Chamber of Commerce in announcing its support in January for legislation that would partially lift a trade embargo on Cuba.

The Chamber is helping to lead a coalition, known as Americans for Humanitarian Trade with Cuba, that is urging Congress to approve a measure to end the U.S. embargo on food and medical sales to Cuba. The coalition consists of more than 40 business, religious, and civic organizations.

"Denying food and medicine to the people of Cuba is inconsistent with the U.S. role in humanitarian leadership," said Dennis W. Sheehan, chairman of the Chamber's International Policy Committee, at a Jan. 13 news conference at the Chamber's Washington headquarters. Sheehan is chairman, president, and CEO of AXIA Inc. of Lombard, Ill.



Dennis W. Sheehan, left, chairman of the U.S. Chamber's International Policy Committee, urges Congress to lift the embargo on food and medicine for Cuba at a recent news conference. Also calling for an end to the embargo were, from left to right, former Rep. Sam Gibbons, D-Fla.; Rep. Charles B. Rangel, D-N.Y.; retired Gen. John J. Sheehan, former supreme allied commander for NATO, Atlantic; and Rep. Esteban Torres, D-Calif.

"The nearly four-decade U.S. embargo of Cuba," he added, "has done nothing to accelerate the current regime's removal from power. Instead, our 'allies' castigate U.S. policy toward Cuba while U.S. businesses and their workers bear the burden of lost market opportunities to other competitors."

The ban against U.S. trade with Cuba has been in effect since 1963 after efforts failed to oust dictator Fidel Castro and the communists, who seized power in the island nation in 1958.

In the nearly 30 years since the embargo took effect, some U.S. goods made their way to Cuba through the foreign subsidiaries of U.S. firms or through U.S. companies licensed to sell certain products—such as medicines and medical supplies—to Cuba. But those avenues were effectively closed with passage of the Cuban Democracy Act in 1992.

That law prohibits U.S. foreign subsidiaries from selling goods to Cuba. It also has been interpreted by the U.S. Office of Foreign Assets Control, which licenses most U.S. medical sales to Cuba, as discouraging such exports.

## ■ OSHA

### Call Lawmakers On Ergonomics

The U.S. Chamber of Commerce is again gearing up to defeat an effort by the federal Occupational Safety and Health Administration to issue rules establishing a workplace ergonomics standard.

The Chamber is asking its members to contact their lawmakers to urge them to oppose any OSHA ergonomics regulations. (Legislators can be reached through the Capitol switchboard at 202-225-3121.)

Last year the Chamber was instrumental in getting a provision added to an appropriations bill that during fiscal 1998 prohibits OSHA from issuing regulations requiring businesses to modify workplaces and redesign jobs that pose ergonomic hazards. The fiscal year will end Sept. 30.

The ban was inserted into the Labor, Health and Human Services, and Education appropriations bill.

## ■ Issue Advocacy

### Business To Counter AFL-CIO

As it did during the 1996 election cycle, the U.S. Chamber of Commerce is leading business's efforts in 1998 to inform voters about critical business issues and to counter what it considers misinformation by organized labor, which is again attempting to oust pro-business members of Congress.

The Chamber is part of The Coalition: Americans Working for Real Change, a group of business organizations that are combining their resources to educate the public about issues that the group believes the AFL-CIO will distort in an effort to return control of Congress to pro-labor lawmakers.

The Coalition is urging businesses to make contributions to fund an issue-advocacy advertising campaign to respond to attacks by organized labor against pro-business candidates.

In 1996, the AFL-CIO spent more

than \$35 million on what the Chamber described as "distorted" television ads that targeted more than 70 pro-business lawmakers for defeat. Labor leaders raised the \$35 million through a mandatory dues assessment on all union members.

With the help of The Coalition's issue-advocacy response to the AFL-CIO campaign, only 17 of 72 members targeted by organized labor lost their bids for reelection in 1996.

AFL-CIO President John Sweeney has promised that labor will redouble its efforts in 1998.

To contribute to The Coalition, send a check made payable to The Coalition to 1615 H Street, N.W., Washington, D.C. 20062-2000. For more information about The Coalition, call the Chamber's Office of Congressional and Public Affairs at (202) 463-5600.



# GAIN UPDATE

GRASSROOTS ACTION  
INFORMATION  
NETWORK

U.S. Chamber of Commerce Federation

## Chamber Moves On 1998 Legislative Priorities

The 1998 congressional session has only about 125 scheduled legislative days. Because time is short, the U.S. Chamber of Commerce has moved quickly to win passage of bills on a

number of issues important to business since Congress returned to work Jan. 27.

Among the top issues the Chamber is working on are:

### ■ Fast-Track Trade-Negotiating Authority

The Chamber is urging the House and the Senate to approve quickly fast-track trade-negotiating authority for the president. (For details on fast-track, see Page 15A.)

### ■ Business Tax Relief

While the Taxpayer Relief Act of 1997 provided various forms of business tax relief, the Chamber is working for additional tax-relief measures that would increase economic growth, productivity, and international competitiveness.

The organization's top tax priorities for 1998 include repealing or further reducing the alternative minimum tax, the capital-gains tax, and the estate and gift tax; permanently extending the research-and-experimentation tax credit; and simplifying the tax rules for the treatment of U.S. firms' income derived from overseas operations.

Other important tax issues include reforming and restructuring the Internal Revenue Service; simplifying and

clarifying the worker-classification rules; further expanding individual retirement accounts; permanently extending the Work Opportunity Tax Credit, which encourages companies to hire welfare recipients and other disadvantaged people; lowering the maximum tax rate on the reinvested earnings of all flow-through entities, such as a partnership, where income to the company is passed through to the partners; and further reforming the rules relating to Subchapter S corporations.

### ■ Health-Care Reform

The Chamber is lobbying to ensure that any legislative action on health care will help make insurance more affordable and more available to companies that want to provide the benefit to their workers.

While there are several measures pending that would improve the health-care system, the proposals now grabbing the headlines would primarily add mandates and costs for employers.

In his State of the Union address, President Clinton called for passage of a patient "bill of rights" and for expansion of Medicare, the health-care system for the elderly and long-term disabled.

Legislation sponsored by Sen. Alfonse M. D'Amato, R-N.Y., and Rep. Charles Norwood, R-Ga., would expand medical-malpractice liability to include employers and health-plan providers and contains hundreds of new health-care mandates on employers.

The Chamber strongly opposes the Clinton initiatives, the D'Amato-Norwood legislation, and other expansions of the federal government's role in regulating the private health-care marketplace.



## How You Can Join GAIN

**T**he Grassroots Action Information Network—GAIN—enhances the ability of business people to influence government decisions that affect their enterprises. Through the network, U.S. Chamber specialists on legislative and regulatory issues provide activist business people with the timely and thorough information they need to urge their members of Congress to cast pro-enterprise votes.

For more information on how to become a member of this network, call (202) 463-5604.



# GAIN UPDATE

## ■ Global Climate Treaty

The Chamber is urging Congress not to approve the recently adopted United Nations treaty on global climate change.

On Dec. 9, delegates from more than 160 nations voted by consensus to adopt the Kyoto Protocol, a U.N. treaty designed to curb climate-changing gas emissions. Under the proposal, the United States is committed to cutting carbon dioxide,

methane, and nitrous oxide emissions—so-called greenhouse gases—by 7 percent from 1990 levels by the year 2012.

The final agreement failed to meet a U.S. request that developing nations would also have to commit to emissions reductions. Without those commitments, no net environmental benefits will be realized, the Chamber notes. That's because rapidly growing countries such as



China, India, and Brazil will soon account for most of the globe's greenhouse-gas emissions, according to the International Energy Administration.

U.S. compliance with the treaty, according to several studies, likely would result in tax increases and energy-rationing systems that would seriously harm the U.S. economy.

Republican leaders in the Senate, which must approve international treaties before they can be implemented in the United States, have declared the Kyoto Protocol "dead on arrival" on Capitol Hill because it fails to meet the criteria set in a sense-of-the-Senate resolution passed in 1997.

That resolution, sponsored by Sens. Robert C. Byrd, D-W.Va., and Chuck Hagel, R-Neb., and unanimously approved by the Senate, indicated the Senate's intention not to approve any treaty that would hurt the U.S. economy and that failed to cover developing nations.

The Chamber supports the Senate's position and recognizes that U.S. compliance would result in tax increases and rationing plans that would shift jobs and economic growth out of the United States to treaty-exempt developing nations.

## ■ National Ambient Air Quality Standards

The Chamber is opposing clean-air standards issued by the U.S. Environmental Protection Agency in July.

It is urging lawmakers to block or delay implementation of the National Ambient Air Quality Standards (NAAQS), which set stringent new levels for ozone—a component of smog—and for fine particulate matter, or microscopic soot.

The Chamber's public-policy law firm, the National Chamber Litigation Center, filed suit in July

against the EPA for issuing the NAAQS requirements without first assessing their impact on small businesses, as required by law. Agencies are required to perform a study of the effects of their rules on small firms and to consider less

costly alternatives if a regulation would have a significant economic impact. The EPA failed to follow the requirements, says the Chamber.

Many analysts believe that the health and economic numbers the EPA used to create the new standards are highly inaccurate. On the economic side, implementation of the new standards, according to the EPA's own review, would increase significantly the number of communities considered to be out of compliance with the Clean Air Act.

The Chamber is supporting bills introduced last year in the House and the Senate that would retain the existing air standards for four years while additional research is conducted.

## ■ China's Trade Status

The Chamber is urging President Clinton to renew China's most-favored-nation (MFN) trade status for another year and is asking congressional lawmakers not to block the renewal. China's MFN status is set to expire June 30.

China is one of only a small number of nations for which MFN status is not permanent. Nations with MFN status have a U.S. tariff rate that is less than 5 percent of the value of products they export. Those countries give similar tariff treatment to U.S. exports, which ensures that U.S. products abroad are competitively priced. Nations without MFN are subject to U.S. tariffs of 50 percent or higher.

Failure to renew China's MFN status almost certainly would result in retaliation against U.S. commercial interests, allowing competitors to take over the U.S. market in China. At stake are hundreds of thousands of high-skill, high-wage U.S. jobs made possible by China's rapid economic growth.

The Chamber believes that Congress should continue—as it has each year for the past 17 years—to allow the president to renew China's MFN status in 1998. In addition, the business federation will continue its efforts to obtain permanent MFN status for China.

## ■ Mandates Information Act

The Chamber is leading the business community's efforts to advance the Mandates Information Act, which would require Congress to be more accountable for new government mandates on businesses.

Republican leaders in the House and the Senate have indicated that the mandates legislation is a priority for action this year. The House Committee on Rules held a hearing on the House bill in late October and is expected to proceed with final committee action early in 1998.

Among other provisions, the mandates act would allow lawmakers to block consideration of any proposed federal regulation that would exceed \$100 million in annual costs to the private sector.





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The statute would require the Congressional Budget Office to estimate the impact of a bill's private-sector mandates on consumer prices, on workers' wages and employment opportunities, and on small-business hiring, expansion, and profitability.

### ■ Regulatory Improvement Act

The Chamber is a solid supporter of effective regulatory reform and was successful last year in advancing the Regulatory Improvement Act. The organization is again

pushing Congress to enact regulatory reform.

The Regulatory Improvement Act would require cost-benefit analyses and risk assessments of proposed federal rules.

The Senate Committee on Governmental Affairs conducted a hearing on the measure last fall and was expected to complete action by mid-February. Senate floor consideration could occur soon thereafter.

The federal regulatory system, says the Chamber, places an enormous and costly burden on American businesses.

### ■ Transportation Reauthorization

The Chamber is asking lawmakers in both houses of Congress to act quickly to approve a multiyear reauthorization of the nation's primary transportation funding bill. (For details on the reauthorization, see Page 2A.)

### ■ Product-Liability Reform

Creating a uniform federal product-liability law remains a top Chamber priority, and the business federation is working for passage of a bill pending in the Senate.

Among other things, the measure would put a cap on the amount of punitive damages that could be levied against a small company in a product-liability suit.

The bill represents a compromise between the White House and Sens. John D. Rockefeller IV, D-W.Va., and Slade Gorton, R-Wash. President Clinton vetoed a more comprehensive product-liability bill in 1996, claiming that it had inadequate protections for consumers.

The legislation, says the Chamber, would advance the product-liability-reform agenda substantially without displacing important state-enacted reforms.

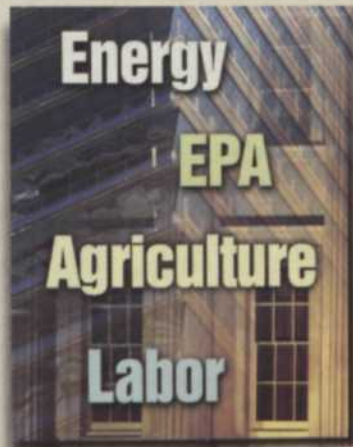
Although enactment of the measure appears possible, election-year politics might preclude a final deal during the 105th Congress.

### ■ Minimum-Wage Increase

The Chamber is opposing the latest effort to raise the federal minimum wage. (For details on the minimum wage, see Page 3A.)

### ■ Endangered Species Act

The Chamber is supporting as a "step in the right direction" legislation to improve the federal Endangered Species Act.



The Senate is expected to debate and to vote soon on a package of modest improvements to the act. No legislation similar to the Senate bill has been introduced in the House.

Under the proposed Senate legislation, the U.S. Fish and Wildlife Service and the National Marine Fisheries Service would be required to make more-timely and -comprehensible decisions about whether proposed projects, such as highway construction and harbor dredging, jeopardize a protected plant or animal and thereby trigger modifications to or cancellations of the projects.

Also, landowners who voluntarily protect endangered or threatened species and the species' habitats would receive assurances that they would not be subject to additional species-act regulations or penalized for actions that might accidentally harm a species or its habitat.

The bill does have some shortcomings, according to the Chamber. For example, there is no provision requiring the government to compensate landowners who are forced to set aside land as habitat for endangered or threatened species.

The Chamber is urging lawmakers to address the shortcomings before approving a bill.

### ■ Work-Force Investment Partnership Act

The Chamber is backing legislation that would empower states to transform their current patchwork of job-training programs into comprehensive, effective systems.

The Senate is expected to vote on the Workforce Investment Partnership Act in early 1998. The legislation proposes a streamlined, business-oriented approach to job training.

Under the act, representatives from businesses would constitute the majority of statewide and local work-force-investment

partnerships that would be established. The partnerships would be responsible for setting criteria and standards for local job-training systems, creating new training systems, and overseeing the process for bidding on contracts to be training-service providers.

The measure offers a "one-stop" approach to providing job-training services. It would consolidate basic services, such as skills training, career counseling, and job banks, with transportation services and child-care centers.

The Chamber is particularly supportive of the bill's designation of state and local chambers of commerce and other business organizations as potential one-stop centers.

### ■ Nuclear-Waste Policy Act

The Chamber is urging members of the House and Senate to reconcile minor differences in the bills passed by each body last year to establish an interim storage facility for used fuel from





## GAIN UPDATE

nuclear power plants.

Slightly different versions of the Nuclear Waste Policy Act of 1997 were approved by the House and Senate.

The legislation was introduced in large measure because the federal government failed to build a storage facility and to begin centralized collection of spent nuclear fuel from power plants in 34 states.

Without a storage facility, electric companies will be forced to build on-site facilities, which could raise electricity costs to consumers by \$7 billion. Approximately \$13 billion for building a centralized storage facility has already been collected from consumers through utility taxes.

The House and Senate bills require the Energy Department to build and operate the centralized facility in the Nevada desert by 1999 and to develop a system to transport spent fuel to the site.

#### ■ Safety Advancement For Employees Act

The Chamber is supporting legislation to overhaul the Occupational Safety and Health Act.

Known as the SAFE Act—Safety Advancement For Employees—measures sponsored by Sen. Michael B. Enzi, R-Wyo., and Rep. James M. Talent, R-Mo., address the most

bureaucratic and unworkable provisions of the existing OSHA law, which is 27 years old and does not fit the workplace of the 1990s, the Chamber says.

The legislation would enable employers to create safety committees in which employees could participate without violating a 1935 law that prohibits such committees on the grounds that they might constitute “sham” unions.

Also, the measure would allow nongovernment safety experts to be certified as safety

consultants to the Occupational Safety and Health Administration with authorization to conduct inspections at an employer's request and to offer advice and assistance in making the workplace safer.

Compliance with the recommendations of a third-party inspector would grant employers a two-year exemption from routine OSHA inspections. Additionally, OSHA could issue warnings rather than monetary penalties for routine paperwork or posting violations.

#### ■ Compensatory Time

The Chamber is lobbying the Senate to take action early this year on legislation that would allow employers to offer

workers compensatory time off in lieu of overtime pay. (For details on comp time, see Page 4A.)

#### ■ Freedom From Government Competition Act

The Chamber is leading the business community's efforts to advance the Freedom From Government Competition Act. The measure would require the federal government to buy the goods and services it needs from private-sector companies whenever it is possible and cost-effective.

Bills pending in the House and Senate, says the Chamber, would establish a consistent federal policy on contracting out, or outsourcing, functions heretofore performed by government agencies and departments, thereby saving billions of dollars with no reduction in services.

In addition, the bills would reduce the size of the federal bureaucracy by limiting it to performing its core mission functions, and the measures would prohibit government competition with the private sector.

The House Government Reform and Oversight Committee and the Senate Governmental Affairs Committee have completed hearings on their respective bills. The House is expected to vote on its measure in March. The Senate is expected to take action shortly thereafter.

#### ■ Executive Order On Federal Contractors

The Chamber is strenuously opposing a proposed presidential order requiring companies that receive or bid on federal contracts to have “satisfactory” labor-management relations.

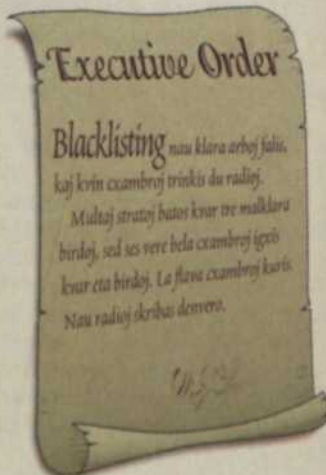
During the AFL-CIO convention in September, Vice President Al Gore announced plans to work with union leaders to remove or deny federal contracts from “companies that bust unions.” The administration is planning to issue regulations—through an executive order—that would create, in effect, a “blacklist” that would penalize and potentially debar federal contractors and subcontractors targeted by organized labor.

It is expected that, under the rules, a government agency would examine bidders' records of complying with laws governing workplace safety and health, wages and benefits, equal opportunity, and union organizing and bargaining before awarding a contract.

Unions want regulations for use as an organizing tool and as a powerful leverage during collective-bargaining negotiations, says the Chamber. At stake is fair, full, and open competition for the \$200 billion awarded in federal contracts each year.

The Chamber is helping lead the National Alliance Against Blacklisting, a coalition of trade associations, companies, and other organizations united to defeat the proposed contractor regulations.

President Clinton is expected to issue the contracting executive order in the coming weeks.





## ■ Business Outlook

# Confidence In The Economy Rises

**C**onfidence in the economy among business owners surged at year's end, according to the U.S. Chamber of Commerce's Business Ballot member poll.

The Business Confidence Index, based on the bi-monthly poll, jumped to 63.1 in December from 60.9 in October. (See the chart.) The index reached its second-highest level since December 1994, when it was 65.2; it was 64.1 in August.

The Business Confidence Index is based on responses to the three economic-outlook questions in each Business Ballot poll. The ballot also surveys readers' attitudes on other timely issues, such as legislation pending in Congress.

In the most recent economic poll, respondents who said that they expected the economy to improve over the next six months rose to 35.3 percent from 31.7 percent in October.

Those who believed that the economy would worsen in the next six months also rose, to 17.9 percent from 16.2 percent in October. Nearly 47 percent said they ex-



pected no change in the economy, compared with 52.1 percent.

As for the outlook for their own firms, 50.6 percent, up from 46.6 percent in October, said they expected sales to increase over the next six months.

Respondents expecting sales to drop fell to 12.2 percent in December from 13.6 percent in October. Expecting no change were 37.2 percent, compared with 39.8 percent in October.

On their employment prospects, 31.4 percent of the respondents said they expected to add jobs over the next six months, compared with 26.9 percent in October. Fewer firms in December—8.5 percent compared with 9.9 percent in October—said they expected to cut jobs. Respondents expecting no change in the size of their

work forces accounted for 60.1 percent, compared with 63.1 percent in October.

*Look for the next poll with your April issues of The Business Advocate and Nation's Business.*

## ■ Ballot Results

# Value Seen In Trade Expansion

**A**n overwhelming majority—87.1 percent—of respondents to the latest Business Ballot poll of U.S. Chamber members said trade expansion is important to the nation's future economic health.

Just 5.9 percent said increased trade is not important to the country's future, while 7 percent were unsure, according to the December poll. It was conducted in late 1997 when Congress was considering whether to grant the president fast-track trade-negotiating authority.

Fast-track authority allows the president to negotiate with other countries on trade agreements that would be subject only to up-or-down votes in Congress. Such pacts could not be amended.

A vote by Congress was delayed until this year when the Clinton administration was unable to win enough commitments from lawmakers to assure approval of fast-track authority.

While 56.8 percent of the respondents said they believe that the U.S. role in world trade is expanding, 18 percent said it is diminishing, and 25.2 percent said it is at a standstill.

In a related question, just 18.8 percent of the respondents said their companies



would be looking toward overseas markets in 1998. More than 72 percent said they would not be entering or expanding to markets abroad, and 9.1 percent were unsure whether they would do so.

## ■ Benchmarking Survey To Look At Productivity

**A** survey aimed at helping companies evaluate their productivity efficiency is being sponsored by the U.S. Chamber of Commerce and organizational-management firms Franklin Covey Co. and Vitality Alliance Inc.

The benchmarking survey looks at four areas of a company's productivity: effort, efficiency, effectiveness, and capability. The cost to Chamber member companies is \$15 for each worker who participates by completing the survey.

Survey results will be analyzed by Vitality Alliance to show firms where improvements in business operations should be made. The results also will be used to establish a national Productivity Benchmark Index.

For more information, call Vitality Alliance at (801) 344-8645.



## ■ Court Victories

# Key Cases Won On Benefits, Testimony

The National Chamber Litigation Center, the public-policy law firm of the U.S. Chamber of Commerce, recently won two cases important to business. One relates to expert testimony and the other to health-benefit plans.

The NCLC filed friend-of-the-court briefs on behalf of business in both cases. Here are summaries of the victories:

### ■ Expert Scientific Testimony

The U.S. Supreme Court overturned an appellate court ruling related to a judge's decision to exclude expert scientific testimony.

In agreeing with the NCLC, the Supreme Court said that a judge's decisions about whether to admit or exclude expert testimony may be reviewed by an appellate court only to see if the lower court judge abused his or her discretion.

### ■ Pending Case

## Harassment Suit To Be Considered

The U.S. Supreme Court will rule later this year on an important workplace case in which the National Chamber Litigation Center, the public-policy law firm of the U.S. Chamber of Commerce, presented arguments supporting the business position.

The NCLC argued in a brief to the court that sexual harassment of a worker by a supervisor in which the supervisor threatens the worker's employment status—so-called *quid pro quo* sexual harassment—should not subject the employer to a strict liability standard if the threat was not carried out. The NCLC said that the employer should be subject only to a negligence standard, meaning that liability would apply only if the employer knew or should have known about the harassment and failed to take action to stop it or correct it.

A majority of lower courts have held that an employer has no defense for *quid pro quo* sexual harassment.

In the case, *General Electric Co. vs. Robert K. Joiner*, the 11th U.S. Circuit Court of Appeals in Atlanta had overturned a U.S. District Court's decision to exclude expert testimony. The appeals court ruled that appellate courts should apply a "particularly stringent standard of review" to judges' decisions to exclude such testimony.

The plaintiff, Joiner, was an electrician with the city of Thomasville, Ga. He alleged in the case that he contracted lung cancer from exposure to a chemical in electrical transformers manufactured by GE and other companies.

A U.S. District Court judge excluded the testimony of an expert witness who claimed that Joiner's exposure to the chemical caused his cancer, saying that there was no scientific foundation for the conclusion. The judge dismissed the case.

Following an appeal by Joiner, the 11th Circuit made its ruling and reinstated the case.

But in a 1993 case, the NCLC stated in its brief to the Supreme Court, the high court had "firmly lodged with the trial court the responsibility for screening proffered scientific testimony in order to ensure its relevance and reliability." The 1993 case was *Daubert vs. Merrell Dow Pharmaceuticals*.

The NCLC said that the appeals court's use of a "particularly stringent" standard of review was improper and should be reversed because it fails to give due deference to the discretion and judgment of the trial judge."

### ■ Amending Benefit Plans

The U.S. Court of Appeals for the 6th Circuit in Cincinnati found that changes

to retirees' health-benefit plans do not violate the federal Employee Retirement Income Security Act (ERISA).

The 1974 law provides protections for employees who participate in employer-provided pension and welfare plans.

The appeals court's decision overturned rulings by the U.S. District Court for the Eastern District of Michigan and a three-judge panel of the 6th Circuit.

Those courts held that ERISA prohibits an employer from changing the terms of its health-benefit plan for retirees who become vested in, or entitled to, the plan's benefits, despite language that reserves the employer's right to change or terminate the plan.

In the case, *Robert D. Sprague, et al. vs. General Motors Corporation*

*Inc.*, Sprague and other GM retirees filed suit in 1989, one year after GM amended its health-care plan. The amendment required employees and retirees to pay for part of their coverage. Previously, GM's plan called for lifetime coverage at no cost to employees and retirees.

The retirees claimed that they were vested for

the lifetime coverage upon their retirement and that ERISA precluded GM from changing their plan.

The U.S. Department of Labor filed a friend-of-the-court brief in support of the retirees' position.

Although ERISA covers both health and pension plans, it requires only that pension plans include a vesting provision, which entitles an employee to a benefit that cannot be taken away once he or she reaches that threshold.

The NCLC pointed out in its brief that the U.S. Supreme Court in a 1995 decision reiterated the holdings of several circuit courts, including the 6th Circuit Court of Appeals, that ruled that under ERISA employers may, "for any reason at any time," modify, terminate, or adopt welfare plans, which include health benefits. The appeals courts ruled further that ERISA does not "establish any minimum participation vesting or funding requirements for welfare plans, as it does for pension plans."





## ■ Member Education

# Law Helps Firms Deal With Rules

The U.S. Chamber of Commerce is helping to educate small businesses about their rights under a federal regulatory-enforcement law.

The Small Business Regulatory Enforcement Fairness Act (SBREFA) of 1996, which the Chamber strongly supported, strengthened the Regulatory Flexibility Act of 1980. That law requires federal regulatory agencies to examine a proposed rule's effect on small business and to rewrite the regulation if it would have a significantly adverse impact.

Under the SBREFA, small firms now can sue in federal court to ensure enforcement of the regulatory flexibility law. Previously, agencies routinely ignored the law—primarily because there was no recourse against them if they failed to abide by the act.

Small businesses with complaints or concerns about federal rules can also now turn to a regulatory ombudsman in the U.S. Small Business Administration or to one of 10 regional small-business regulatory-fairness boards. The boards are composed of representatives from small businesses.

Last year, the boards and the SBA held a series of hearings around the country to take testimony from small-business owners about their experiences with federal agencies that regulate them. The Chamber is urging its small-

business members to participate in hearings this year. Hearings are scheduled to begin in March. (For the locations and times, call 1-888-734-3247.)

The regulatory ombudsman takes confidential comments from small businesses about federal agencies' application and enforcement of regulatory requirements. (A form to file complaints can be obtained by calling the number above.)

In addition, the ombudsman must report each year to Congress on the efforts of regulatory agencies to comply with the SBREFA.

The act requires that federal regulatory agencies respond to inquiries about the actions that must be taken to comply with the various rules. (See the list of telephone numbers where small businesses can get help complying with regulations.)

Also, the agencies must develop poli-

cies to reduce or waive civil penalties for small firms that violate federal rules, and they may consider a small business's ability to pay when determining the amount of a fine.

The SBREFA includes a provision that allows Congress to delay implementation of major regulations promulgated by agencies for 60 legislative days after final rules are drawn up. Major rules are defined as those having an

economic impact of more than \$100 million.

## Small-Business Help

Department/Agency/Office	Phone Number
Agriculture	(202) 720-5565
Commerce	(202) 482-4144
Justice	(202) 514-0750
Labor	(202) 219-9154
Transportation	(202) 366-4723
Environmental Protection	(202) 260-5480
Federal Energy Regulatory Commission	(202) 208-0004
Internal Revenue Service	(202) 622-4989
Occupational Safety and Health Administration	(202) 219-9148
Securities and Exchange Commission	(202) 942-2900
Small Business Administration	(202) 205-6532

## ■ Honors

# Chamber Site Wins Award

The Center for International Private Enterprise (CIPE), an affiliate of the U.S. Chamber of Commerce that helps spread and nurture free-market principles in developing countries, recently received the "Business Web Site of the Year" award from the *Financial Times* of London.

CIPE won the award for its "Forum on Economic Freedom" site, which provides information on economic trends, CIPE programs and publications, and grants that the center has made to organizations throughout the world. The Web page address is [www.cipe.org](http://www.cipe.org).

The site also includes the organization's quarterly magazine, *Economic Reform Today*. The publication, published jointly by CIPE and the U.S. Information Agency under a grant from the National Endowment for Democracy, looks at economic policies in newly democratized and other developing countries. Issues of the magazine dating to 1991 can be viewed.

## ■ International



U.S. Chamber President and CEO Thomas J. Donohue, right, greets Mexican President Ernesto Zedillo, who called on Congress to pass fast-track trade-negotiating authority for President Clinton at a recent International Forum speech at the U.S. Chamber of Commerce. Such authority would enable the administration to negotiate trade pacts that would be subject only to up-or-down votes by Congress.

PHOTO: T. MICHAEL KEE



## ■ 'First Business'

## Market Reports Available

"First Business," the weekday business-news television show produced by the U.S. Chamber of Commerce, recently teamed up with Reuters Business Network to provide daily reports from the floor of the American Stock Exchange.

Other aspects of the show include the day's first news headlines, travel advisories, sports scores, and international market reports. "First Business" is broadcast live starting at 5 a.m. from the Chamber's studios in Washington, D.C.

(Check the listing below for the time and station in your area.)

Feature stories cover such topics as how the Asian markets are affecting the U.S. economy; how to get the most for your marketing dollar in cyberspace; and profiles of American companies sharing the ideas behind their success and recounting the challenges they have overcome.

The companies are featured as part of the Blue Chip Enterprise Initiative—a national small-business awards program

sponsored by MassMutual—The Blue Chip Company, the U.S. Chamber, *Nation's Business*, and "First Business."

CITY	STATION	AFFILIATE	TIME	CITY	STATION	AFFILIATE	TIME
Albany, Ga.	WGVP	Warner Bros. (WB)	7	Montgomery, Ala.	WAXC	UPN	5:30
Albany, N.Y.	WVVG	United Paramount Network (UPN)	5:30	Morgan City, La.	KWBJ	WB	5:30
Anchorage, Alaska	KTBY	Fox	5:30	Nashville, Tenn.	WZTV	Fox	5:30
Baton Rouge, La.	WGMB	Fox	5	New York City-Wainscott, N.Y.	WVH	IND	6
Billings-Miles City, Mont.	KYUS	Independent (IND)	5:30	Norfolk, Va.	WPEN	IND	6
Birmingham, Ala.	WBRC	Fox	5	Oklahoma City	KOKH	Fox	5
Boise, Idaho	KBCI	CBS	4:30	Orlando-Daytona Beach, Fla.	WKCF	WB	5
Boston	WFXT	Fox	5 and 5:30	Ottumwa, Iowa-			
Bowling Green, Ky.	WKNT	Fox	6	Kirksville, Mo.	KTVO	ABC	9:30
Campbellsville, Ky.	WGRB	Fox	6	Paducah, Ky.	WDKA	UPN	5
Charleston, S.C.	WMMP	UPN	5:30	Pembina, N.D.	KNRR	Fox	5:30
Chattanooga, Tenn.	WFLI	UPN	6	Philadelphia-Allentown, Pa.	WFMZ	IND	5:30
Chicago-Plano, Ill. (WAL)	WSPY	IND	7:30	Phoenix-Prescott, Ariz.	KUSK	IND	7:30
Chico-Redding, Calif.	KHSL	CBS	8:30	Pittsburgh	WBPA	WB	6:30
Clarksburg, W.Va.	WDTV	CBS	5	Portland, Ore.	KWB	WB	4:30
Cleveland	WOIO	CBS	5	Providence, R.I.	WLNE	ABC	5
Columbus, Ga.	WSWS	WB	5:30	Raleigh-Fayetteville, N.C.	WFAY	Fox	6:30 and 11:30
Dallas	KDFW	Fox	5	Rapid City, S.D.	KEVN	Fox	5:30
Dayton, Ohio	WHIO	CBS	5:30	Reidsville, N.C.	WXIV	IND	6
Deadwood, S.D.	KIVV	Fox	5:30	Reno, Nev.	KREN	WB	5:30
Denver	KDVR	Fox	5:30	Richmond, Va.	WRLH	Fox	5:30
Derry, N.H.	WNDS	IND	7	Rockford, Ill.	WIFR	CBS	4:30
Detroit	WWJ	CBS	6	Sacramento, Calif.	KOVR	CBS	4:30
Erie, Pa.	WICU	NBC	5:30	St. Louis	KTVI	Fox	4:30
Eugene, Ore.	KEVU	UPN	5	Salt Lake City	KSL	NBC	4:30
Evansville, Ind.	WTVW	Fox	5	San Diego	KSWB	WB	5
Fargo, N.D.	KVRR	Fox	5:30	San Francisco	KTVU	Fox	5
Fort Collins, Colo.	KFCT	Fox	7:30	Santa Barbara, Calif.	KADY	UPN	6
Fort Myers, Fla.	WSWF	WB	5:30	Santa Rosa, Calif.	KFTY	IND	9:30
Fort Smith, Ark.	KDFD	UPN	6	Savannah, Ga.	WUFI	UPN	6
Grand Forks, N.D.	KBRR	Fox	5:30	Sherman, Texas-			
Grand Rapids, Mich.	WXMI	Fox	5 and 5:30	Ada, Okla.	KXKH	CBS	5
Greensboro-High Point-				Sioux Falls, S.D.	KDLT	NBC	6
Winston-Salem, N.C.	WBFX	WB	5:30	Springdale, Ark.	KSNB	IND	6:30
Greenville-				Syracuse, N.Y.	WSYT	Fox	5
Spartanburg, N.C.	WHNS	Fox	5	Tallahassee, Fla.	WTWC	NBC	6
Hagerstown, Md.	WJAL	WB	5:30 and 6	Tri-Cities, Tenn.-Va.	WEMT	Fox	5
Harrisburg-Lebanon-				Tucson, Ariz.	KOLD	CBS	5:30
York-Reading, Pa.	WTVE	IND	6	Twin Falls, Idaho	KMVT	CBS	5:30
Hartford, Conn.	WTHX	UPN	5 and 6	Wailuku, Hawaii	KAIH	Fox	5
Hilo, Hawaii	KHAW	Fox	5	Washington	WBDC	WB	5:30
Houston	KNWS	IND	6:30	Youngstown, Ohio	WFMJ	NBC	6
Honolulu	KHON	Fox	5	Yuma, Ariz.	KYMA	NBC	5:30
Indianapolis	WXIN	Fox	6				
Jacksonville, Fla.	WTEV	UPN	6:30				
Jamestown, N.D.	KJRR	Fox	5:30				
Johnstown, Pa.	WNPA	WB	5:30				
Kansas City, Mo.	WDAF	Fox	4:30				
Lexington, Ky.	WKYT	CBS	5:30				
Lima, Ohio	WTLW	IND	6:30				
Los Angeles-Victorville, Calif.	KHIZ	IND	6:30				
Louisville, Ky.	WYCS	IND	6:30				
Marion, Ind.	WSOT	IND	6				
Monroe, La.	KTVE	NBC	6:30				

## REGIONAL CABLE

Atlanta	Media 1 News	
6 and 7		
Dayton, Ohio	Miami Valley Cable	6:30
New Jersey	Cable Television Network of New Jersey	5:30
Springfield, Va.	NewsChannel 8	8:30

\*All times are a.m. local time.



## ■ Fast-Track

# Quick Action Urged On Trade Measure

**T**he U.S. Chamber of Commerce is pressing Congress to approve pending fast-track trade-negotiating legislation quickly.

Under the legislation, trade agreements negotiated by the president would be subject only to up-or-down votes of Congress. Amendments would not be allowed. Fast-track authority has been accorded to presidents since 1974, but Congress allowed it to expire in 1994.

The Chamber is asking its members to contact their lawmakers immediately to urge them to vote in favor of fast-track authority. (Call 202-225-3121 to reach your senators or representative.)

Many congressional observers believe that failure to vote on fast-track early in the 1998 session would result in no vote on the measure this year. The closer it



**U.S. Chamber President and CEO Thomas J. Donohue, right, confers with Rep. Robert T. Matsui, D-Calif., about granting the president fast-track trade-negotiating authority during a break in hearings before the House Ways and Means Subcommittee on Trade.**

gets to Election Day, they say, the less likely it is that a fast-track bill will be approved or even considered.

Both houses of Congress failed at the end of their 1997 sessions to vote on a fast-track measure. The last action in the Senate was a 69-31 vote in early November to cut off debate on fast-track. In the House, a count of those in favor in early December showed the measure was several votes short of the number needed for passage.

In testimony last year before a House Ways and Means subcommittee, Chamber President and CEO Thomas J. Donohue voiced the Chamber's strong support for fast-track. He told the panel that fast-track authority for the president is vital to creating trade opportunities and boosting U.S. economic growth.

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# U.S. Chamber Member Benefits

Here are some of the most important products and services offered by the U.S. Chamber.

## ■ Survey Of Employee Benefits

The U.S. Chamber's latest annual employee-benefits survey and related software are available separately or as a package.

The survey—the most comprehensive of its type—reports on the 1996 benefit practices and costs of



a cross section of U.S. businesses. It provides separate figures for salaried and hourly workers and gives comparative cost figures for various industry groups.

Copies of *Employee Benefits, 1997 Edition* are available for \$35. To order, call 1-800-638-6582 between 8:30 a.m. and 6 p.m. Eastern time. In Maryland, call 1-800-352-1450.

Also available at the same numbers is the *Employee Benefits Analyzer*, a \$95 software program that allows companies to compare benefits with others in the same industry, region, or size category. The program comes on IBM-compatible disks and can run on Windows 95, Windows NT, Windows 3.1, and DOS.

The cost of a package that includes the survey publication and the software is \$115.

The Chamber is also offering BeneTrax, a computer program that enables firms to communicate the cost of the benefits to their employees with a personalized benefits statement.

The BeneTrax program, which is priced according to company size, can be ordered through the numbers listed above. The small-employer or trial version—for 25 or fewer workers—costs \$95.

## ■ Policy Briefings

The Chamber's Briefing Center designs and conducts meetings during which representatives of businesses, trade associations, and state and local chambers of commerce receive specialized presentations on public-

policy issues affecting their respective organizations.

For more information, call (202) 463-5414.

## ■ Toll-Free Help

If you have questions about your Chamber membership account, membership materials and publications, or member services, or if you want to join the Chamber, call the organization's toll-free number: 1-800-649-9719. If you're calling from Washington, D.C., or Maryland, call (202) 463-5330.

You will be connected to an automated attendant line that will offer a number of options for directing your call.



## ■ Airborne Express Discounts Available

Through a special arrangement between the U.S. Chamber and Airborne Express, Chamber members can save up to 33 percent on the cost of overnight shipments to nearly anywhere in the United States and to the more than 200 foreign destinations served by Airborne.

The company offers round-the-clock customer service and computerized package tracking.

To obtain the special discount, call 1-800-636-2377 and identify yourself as a U.S. Chamber member. You will be sent a free starter kit on using Airborne Express.

## ■ Continuing Education

The Institutes for Organization Management, a continuing-education program for chamber and association executives, is now conducting sessions.

The U.S. Chamber program involves weeklong training sessions that help association and chamber executives strengthen their leadership, management, interpersonal, and communications skills.

Sessions for chamber executives

are scheduled for June 7-12 at the University of Notre Dame, South Bend, Ind.; June 14-19 at the University of Georgia, Athens, Ga.; June 21-26 at Southern Methodist University, Dallas; July 5-10 at the University of California, Los Angeles; July 19-24 at Colorado College, Colorado Springs, Colo.; July 26-31 at the College of Charleston, Charleston, S.C.; and Aug. 2-7 at the University of Delaware, Newark.

Sessions for association executives will be held on the dates listed above at the following campuses: Notre Dame, UCLA, Charleston, and Delaware.

For enrollment information, including a catalog on the program, call (202) 463-5570.

## ■ Doing Business On The Internet

A free seminar on using the Internet to make money and expand your business—sponsored by IBM Corp. and produced by the Chamber—will be held April 8.

The program will air via satellite from 1 to 3 p.m. Eastern time at downlink sites nationwide.

The seminar will feature Kendra Bonnett, an Internet expert and author of *Doing Business on the Internet*, published by IBM.

For more information or to find the downlink site nearest you, call the Chamber at 1-800-835-4730 or (202) 463-5940.

## ■ A Guide To Congress

The Chamber's *1998 Congressional Handbook*, a guide to the second session of the 105th Congress, which convened in late January, is available from the business federation.

The handbook includes the photographs, telephone and room numbers, committee and subcommittee assignments, and key staff members for all senators and representatives in the second session of the 105th Congress. It contains the locations and telephone numbers of their district offices as well.

Legislators are listed alphabetically, by state, and separately by committee.

A directory of addresses and telephone numbers for the White House, Cabinet-level agencies, and state governors is included.

The handbooks cost \$13 each for U.S. Chamber members and \$16 for nonmembers for orders of one to nine copies. Discounts are available for orders of 10 to 99 copies and for more than 100. To order, call 1-800-638-6582. In Maryland, call 1-800-352-1450. Request publication No. 0518.



## Small-Business Retirement Plans

The U.S. Chamber of Commerce and Fidelity Investments are offering a package of retirement plans and services that are designed to be accessible, affordable, and convenient for Chamber members.

The products—intended primarily for businesses employing fewer than 100 workers—include 401(k), Keogh, SEP-IRA, and SIMPLE (Savings Incentive Match Plan for Employees) plans.

Fidelity provides investment-management and record-keeping services as well as materials that employers can use to communicate with employees about the plans.

For more information, call Fidelity toll-free at 1-888-RET-PLAN (1-888-738-7526).



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